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INTERNATIONAL ECONOMICS

THE TRADE CYCLE

BRITAIN'S FUTURE POPULATION

ARE THESE HARDSHIPS NECESSARY?

BY

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LONDON

First published October, 1947
Second Edition (revised) December, 1947

Made and printed in Great Britain
by Hazell, Watson & Viney, Ltd.,
London and Aylesbury

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PREFACE

FOR many months it has been my desire to publish some comments on the impending crisis. I have observed a rather considerable difference between my own views as to the causes and appropriate remedies for our present troubles and those of many well-informed people. I hold that the prevailing pessimism is far too great. I do not consider that the troubles through which we are living are mainly due to factors beyond our control, such as the state of Europe, but rather to quite specific mistakes that have been made by the Government. I hold that those mistakes could be corrected fairly quickly, and that, if this were done, we could move forward to a much happier and healthier condition before many months are out. I do not deny that, given the policy of the Government, our position is one of the utmost gravity. Indeed I hold that the gravity of our position at present is commonly underrated.

In conversation, in addresses and through other channels, I have during the last two years given repeated warnings of the danger of these mistakes being made. The first published reference that I can find in my files is an article in the *Financial Times* of November 5, 1946.[1] The unfolding of events has seemed to confirm my view.

During 1946 the state of the nation improved considerably and we were approaching solvency. Although

[1] The case is more fully developed in an article in *Soundings* in March 1947.

it was clear that the Government programmes, if executed, would destroy our prospects, it seemed reasonable to hope that the Government would revise them, owing to the certainty that, if they did not do so, a crisis would occur when the American and Canadian credits neared exhaustion. The Government's continued adherence to their programmes in 1947 dashed this hope. Hence the growth of my desire to publish a book.

On enquiry, however, I was informed that in present conditions it was impossible to avoid a time-lag of nearly a year between delivery of the manuscript and publication. This is a good illustration of the bad condition of our economy, the causes of which the following pages seek to diagnose. A British author, desiring to get his topical comment before the public in the form of a book, has to stomach his discontent. But a would-be foreign purchaser, who is informed that he cannot have delivery of a British article for twelve months, finds satisfaction elsewhere. I abandoned my intention to write.

Enterprise, however, is not entirely dead in Britain, and by good fortune some weeks ago I was placed in contact with a publishing firm which undertook to publish in less than ten weeks after delivery of the manuscript. Meanwhile the crisis was developing. I therefore decided to take ten days away from my summer holiday, and in those ten days this book was written. I am acutely conscious of the imperfections and blemishes which must result from such hurried composition. I plead only on behalf of the book that its arguments and doctrines proceed from long thought and study.

The method of approach was, as I have explained in the text, suggested by the ideas of the late Lord Keynes. I will only further mention by way of gratitude the practical people, engaged in various branches of the nation's economic activity, who have borne with me in conversation. The record of their experience has given me an insight into how general economic principles are working out in application to the special circumstances of the nation to-day.

To the main text I have added a paper already published. I have to thank the editor for allowing me to reprint from the *Political Quarterly* of July, 1946, an article entitled " The Practical Consequences of Nationalising the Bank of England," to which I have added a postscript.

BAYFIELD BRECKS,
HOLT, NORFOLK.

August 19*th*, 1947.

NOTE.—I have been able at the proof stage to make corrections required by the lapse of sterling convertibility on August 20th.

September 6*th*.

SECOND EDITION (December, 1947).—Pages 52–55, dealing with the U.S. and Canadian credits, have been re-written.

Chapter I

INTRODUCTORY

A MOOD of great despondency has descended upon the people. They are downcast in regard both to our immediate troubles and to the more distant future. On all sides one hears it said that it is impossible to see the way out, that our situation is inexorably bound to deteriorate. People begin almost to take a pleasure in showing the logical impossibility of better times coming.

The main burden of these pages will be to show that this pessimism is misplaced and that the so-called logic is not correct. In contrast to the view that our immediate troubles arise somehow out of the necessities of our situation, I shall urge that they are due to certain big mistakes that have been made and can be corrected. It is important that they should be corrected quickly. It is possible that, having proceeded as far as we have, we must endure another turn of the screw of austerity; without access to all the relevant information it is impossible to form a confident judgment about this; my own impression is that we should be able to get through without very serious sacrifices over and above those to which we have already become accustomed.

Of course if we cannot see clearly how our house is to be set in order and have no precise notion even about the causes of the disorder, then we must steel ourselves to the utmost austerities without delay. But if, as I shall argue, the causes of our troubles are clear, and if it is also clear that there are measures

which would have a remedial effect without great delay, and if we proceed forthwith by quick decisions and resolute action to apply those remedies, so that the prospect of solvency becomes distinctly visible within the horizon, then we can without undue trepidation use part of the reserves that remain to us, to help us through the last part of our journey.

The urge that has impelled me to set out the sketch of our position which follows is that of securing greater clarity of thinking. It is this clarity that, above all, is needed. Once it was achieved, the force of public opinion would surely be strong enough to compel the Government to correct its mistakes; and this same clear view would do much to dispel the pessimism, which is a force, additional to the mistakes themselves, that is holding us back. A man is greatly distressed and hampered in his work by an ailment of which the doctors cannot tell him the cause. But once a diagnosis is made, and the need for a specific operation, well known to be effective, pointed out to him, his prospects clear and his hopes return. So in the present state of the nation.

Further for encouragement I would add that even if blunders continue to be made in the near future, there is no need to be despondent about the long-distance future of the nation. The blunders may involve us in a harrowing period now, but cannot prevent a return to greatness and strength later. This is not to give justification for complacency, because the present blunders, if persisted in, may do us lasting damage, lowering our international position and our standard of living.

The main argument will be that by undertaking

many tasks that are unnecessary or postponable, the Government has prevented our achieving what is necessary. We have the resources with which to achieve what is necessary, but we have deflected their use to other purposes.

When the war was drawing to a close, it was already clear that we should have a very awkward transition. Our resources were locked up in the war effort, whether in the field or in the factory, our necessities had been in part provided during the war by Lease-Lend, by the Canadian gifts and by credits from other nations, and we could not, merely by pressing a button, resume that ability that we had in 1939 to provide for ourselves. Men would have to be demobilised and factories converted to peace-time production. This was bound to take a year, two years, even, perhaps, three years. For the sake of the war effort we had let our exports run down to 30 per cent. of their pre-war volume. We had given up attempting to pay our way, and strictly limited the use of man-power and shipping to those exports which were needed to sustain allied or friendly nations in their own efforts to assist us or provide us with supplies. It would be a mistake, however, to think of our problem solely in terms of foreign trade. That was merely a symptom of the general position, namely that we had turned over all our energies to waging war, reserving only the barest minimum of resources to produce civilian supplies.

It was in these circumstances that the American and Canadian credits were arranged. They were designed in some sense to prolong the wartime basis of our economy throughout the transition period. Supplies were to continue to come in, gratis for the time being,

while we redeployed our productive resources and got them to work more or less on the lines on which they were working in 1939.

Owing to certain adverse factors we could not hope to return quite to the 1939 standard of living for some years. The idea was, however, that during the transitional period in which we were financed by these external credits we should find our way back to some sort of post-war normal, which might be a somewhat reduced one by pre-war standards, but would be sufficiently tolerable.

But have we done this? What has happened during the two years which have elapsed? Is it seriously contended that the austerities which we are facing this autumn (1947) are in fact to be the post-war normal? Surely not. Yet what precisely is the nature of the transition which we still have to make in order to reach that normal? And why has it not already been made? It is true that a few hundred thousand men are still due for release from the Forces, and that certain foodstuffs are still in short world supply. These items alone cannot, surely, account for the difference between what we are faced with this autumn and what we hope will be our post-war normal. There is talk of seeking further assistance from the United States, if the Marshall offer materialises, and from the Dominions and so forth. But what precisely is the nature of the transition through which this assistance is designed to help us to eke out our own resources? What are the special adverse factors still affecting us, over and above those factors which will unhappily continue to operate in the normal post-war period? What is the expected duration of

the continued period of transition? What is the calculation of the further assistance needed for this transition? . . . Or is there no such transition? Is the idea that we are still in a transition in fact bogus? It is often said that the poor state of world markets, sometimes described as the "dollar famine," is adversely affecting us. This would be a genuine plea, if we were in fact exporting to all available markets. But so long as our exporters cannot satisfy the orders that come to them, for lack of men and materials, we cannot plead that the lack of foreign markets is a factor holding us fast in a phase of abnormal transition.

If the plea that we are still in transition does not hold water, then should we apply for further assistance? What is the object of it? How long are we to continue to ask for assistance? And is it really the case that such penurious living as we are immediately threatened with, compressed even further if we seek no external assistance, is the post-war normal to which we must accustom ourselves? Surely this is absurd.

We cannot, it is true, be as well off as we were in 1939. There are certain adverse factors which must be listed. The most important is the loss of foreign assets during the war. These assets were acquired by the hard-won savings of the British people during a century, and the interest and profit on them brought a flow of goods into the country for which we did not have to pay by current exports and the labour needed to produce them. Other adverse factors, on our shipping and financial accounts, have affected our balance of foreign payments, and experts have calculated that the volume of our exports must be

raised above its pre-war level by 75 per cent. This will lock up labour and prevent its use in the production of goods of various kinds for ourselves. A generous estimate of the additional labour required, directly and indirectly, by comparison with the pre-war pattern, is one and a quarter million.[1] On top of this we shall have additional defence requirements. Let us put the additional man-power needed at three quarters of a million. Thus we may have to expect a loss of two million hands, who will be taken away from making the goods we need and set to other purposes. On the other hand we now have, and hope by wise management to maintain, much fuller employment than we had in the five years before 1939. The gain on this head may well be in the neighbourhood of a million persons. These items taken together suggest a net loss of some million persons out of a total working population of some twenty million. A substantial loss, certainly, but not an overwhelming one; a loss of this kind should be made good by the normal course of progress over three or four years.

Then there is the provision of additional benefits for the needy. This is a question of redistribution. Heavy taxation is being borne to provide children's allowances, to supplement contributions under the Social Insurance scheme, to subsidise the prices of basic foods, etc. The rich have been severely squeezed. Luxury has been in the main cut out. It is hoped that these social benefits will be ultimately remunerative, that better health, education and security will eventually

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[1] This is Mr. G. D. A. MacDougall's estimate, *Economic Journal*, March, 1947, page 78.

give rise to increased output per man, which will, so to speak, in the long run cover the cost of the services for the nation as a whole. The redistribution has taken place and is being borne without great complaint; it is independent of the shortages and austerities with which we are now threatened and which prevent the consumer satisfying his needs with the income that remains to him after all these charges have been met.

The next point is that our workers may be producing considerably less than before the war. There is great uncertainty about the magnitude of this loss, and the provision of production indices, covering a wide sample of workers, would be welcome. Published figures indicate that the output of coal per man is down by about 15 per cent. The special causes affecting this industry have already been much discussed. It is reported that the output in the building industry is very low. If the numbers recorded as employed on orders for export markets provided in table 5 of the *Statistical Digest* could be relied upon (but they are probably inflated) and related to the volume of exports, they would suggest that output per man in these wide and diverse fields of activity is down on average by about 15 per cent. To the extent that the *Digest* figure overstates employment on exports, the fall in productivity has been less than this. Many employers report, however, that output per head in their own factories has not fallen at all below the pre-war level or is even above it. It may well be that for the nation as a whole output per head is in fact down by some 15 per cent. A loss of output of this magnitude, if true, is certainly a very serious factor.

It must however be remembered that the low level

of output is in large part due to the disorders in our economy, which are themselves the subject of the diagnosis in the chapters that follow and must not be regarded as features of the post-war normal. We are involved in a vicious circle. Lack of essential components and of adequate maintenance is leading to constant interruptions of work in factories. In certain cases (notably building) the prospect of a shortfall in the flow of materials may itself reduce output per man, since men will naturally go slow if they can see the prospect of being stood off. Low output may be due to low vitality owing to inadequate nourishment. It may also be due to the low vitality of the management, owing both to inadequate nourishment and also to despondency and to the complexities with which they are faced. The notion that it is only heavy workers who need to be well fed should be applied with great caution. Shopping difficulties may also be a cause of low output. Is it surprising that high absenteeism among women is recorded in present circumstances? But the male breadwinner may also be affected in his punctuality and energy by these household troubles. There is a tendency to say, whenever the man-power shortage is discussed, "take it away from distribution." This notion also should be accepted with caution.

All these troubles, which are the product of mistaken policy in the last two years, accentuate our difficulties; by lowering output they set up a vicious circle. This must be allowed for in considering what the post-war normal would be, if we could alter the mistaken policy and repair the confusion resulting from it. I find it hard to believe that the output per man of British labour will be found to have permanently

declined. The majority of men and women have never welcomed hard work for its own sake beyond a certain point, but British labour has maintained decent standards throughout the decades, in good times and bad. I never believed that Mussolini had over-night converted the Italians into a martial people. Nor do I believe that we have to set down as a permanent adverse factor a substantial decline in output per head on the part of the average British working man.

For these reasons, then, we cannot expect an immediate return to 1939 standards. It should be noted, however, that the author of the White Paper on National Income and Expenditure (1939–1946),[1] who should be treated with great respect, informs us that the consumers of this country had as much in 1946 as they had in 1938. This, if true, is inconsistent with a drop in output per man. It also, if true, points a very clear moral, namely the vast difference between being able to buy what one wants with one's income and having to take what one can get with that income, between free markets and a system of rations and allocations. No substantial section of the community, rich or poor, thought it was consuming as much in 1946 as it did in 1938. Some Socialists are apt to pooh-pooh the value of freedom of choice by consumers in the use of their money for satisfying their needs, as being something dear to rich capitalists but an unnecessary luxury for poor people—a luxury which, they tell us, we may have to dispense with in

[1] Cmd. 7099. The unsatisfactory nature of this estimate, owing to deterioration in the quality of many articles, has been generally recognised and is mentioned in the paper itself.

the interests of "planning." There are few poor people who would agree that their inability in 1946 to buy what they wanted with their money meant no substantial loss to them.

Taking these various factors into account, then, it is probable that the post-war normal will be somewhat lower for the time being than the immediate pre-war standard of living. If proper plans had been made and implemented in the first year after the war, we should be approaching that post-war normal now. Had plans been made as to how precisely the American and Canadian credits should be used to cover the transition, then we should be approaching our post-war normal level, which we should hope subsequently to raise by strenuous efforts as time passed. But actually the scene is entirely different. We are faced with the prospect of national insolvency, involving an immense decline in our international position, in both the political and economic fields. We appear to be about to struggle for fresh foreign subventions, so as to extend the period in which we do not pay our way in our foreign trade. But because these subventions cannot be nearly enough to fill the gap which imminently threatens, we are to be subjected to slashing cuts in much needed commodities, including food. And on top of all this there is to be compulsory direction of labour. These are appalling evils, far exceeding that decline in our standard of living which we should have to expect in consequence of the causes I have listed. No term is stated for the duration of these evils. We are threatened with cuts, but are given no adequate programme for readjusting our economy in such a way as to bring about a restoration of the existing standard

or that rise above it which ought by now to have become possible. There should no longer be any question of the food of our people being rationed save in the cases where this is necessitated by stringent world shortages. For how long is labour to be directed? What are the means proposed to ensure that the direction will no longer be necessary?

If it is true that in the years immediately ahead the consumer will be obliged, owing to the genuine adverse factors that have been listed, to do without some 10 or 15 per cent. of what he was accustomed to before the war, then it is most urgently important that he should be given a free choice of how to adjust himself. The circumstances of each individual are different, and he knows how to reduce his expenditure by 10 or 15 per cent. in a way that causes him far less pain than the imposition of all-round cuts which cannot discriminate between individual cases and usually seem to be applied to objects high upon the list of importance. Consider the restrictions on restaurants. It is not a question of grand entertaining, but of the myriads of cheap restaurants up and down the country. It is difficult to see how these restrictions, if introduced, can be prevented from imposing the utmost hardship on persons living alone and dependent on one ration book only, especially if they are old or infirm and unable to take active measures to fend for themselves. Tell them that in one way or another they must somehow reduce their consumption of goods by 10 or 15 per cent., and they will find the way of doing it that imposes least sacrifice on themselves. But debar them from the restaurants and they may be unable to see how they can continue to live. This is the pass to which we have come.

In sum, we should not perhaps complain if on average the relation of incomes to prices was such that the standard of living had to be cut by a moderate amount compared with 1939. Nor would the well-to-do complain over much that large sums were taken in taxation to provide for the needy by the various forms of social service that have been established. But this is utterly different from the situation with which we are faced—national insolvency, arbitrary cuts in vital necessities, and industrial conscription.

It is my opinion that mistakes have been made which could clearly have been foreseen to lead to these results, and it is the purpose of the following pages to explain precisely their nature.

Chapter II

THE CAUSE OF OUR PRESENT TROUBLES

(i) *Basic Analysis*

In his speech in the House of Commons on August 6th Mr. Attlee said, "Maybe the Government has tried to do too much." This is indeed the true diagnosis. Had the remainder of his speech developed this point and given assurances that a policy consistent with it was to be carried into executive action, then it would have done much to restore confidence.

It is my purpose to show in what follows that almost all the evils from which we suffer flow from this attempt to do too much, and that many of the things attempted were not important enough to justify the troubles which they have caused.

The two great evils which flow from the attempt to do too much are, first, the large adverse balance of trade, and secondly, the excess of total demand over total supply within our domestic economy. These two evils are inextricably interconnected, they are the effects of the same root cause, and attempts to cure them by separate treatment are not likely to be successful.

It is not necessary at this stage to enlarge on why a big adverse balance of trade must be regarded as an evil. For one thing, it cannot be continued; and the abrupt attempt to terminate it will cause distress, confusion and a serious dislocation in our productive effort which will add to our difficulties. We shall be obliged to make a great reduction in it very quickly, and the process, accompanied probably by

further requests for foreign assistance, will be most damaging to our world position, political and economic. How can a country seeming to be on the verge of bankruptcy, struggling desperately with last-minute problems and crying out to others for relief, exert a commanding influence in the sphere of international politics? And how can such a country maintain that goodwill and confidence among its clients which were the source of so much profitable business in the past? The plainly visible deficit and the shifts and expedients to which we may be driven in order to eliminate it in a hurry must undermine the confidence of those who would otherwise be disposed to do business with us. Our "invisible exports," which in the past have done so much to assist our balance of trade and maintain our standard of living, have in large part depended on our reputation for undoubted solvency and unquestioned readiness to pay what was due as soon as the demand was presented. In the sphere of our insurance business, for instance—a most important asset in which our international supremacy has been unchallenged—all depends on the absolute certainty of ready and unimpeded payment. The success of our competition in this sphere has probably been due to the reputation, which the British gained through many decades, of meeting claims without haggling over detail or over-meticulous attention to the letter. How can we hope to maintain this reputation if our solvency remains visibly precarious, and we have to struggle from one crisis to another in making ends meet in our international account? All these troubles, I shall urge, so damaging to our long-run position, are due to this "attempt to do too much."

The twin effect of this mistake is the excess of total demand over total supply at home. I shall call this excess "inflationary pressure." That pressure is responsible for the all-round shortages of materials and components, our empty industrial pipe-lines, lack of adequate maintenance of plant, interruptions to production and consequent low output per man-hour, the all-round shortage of man-power, the maldistribution of man-power (including insufficiency of man-power available for the textile industry, and, still more important, the shortage in the coal-mining industry), the shortages of goods in the shops, the queues, most of the controls (which involve such waste of man-power in their administration both on the side of the Government and on the side of industry which has to cope with them), and the lack of balance in our economy resulting in a tendency to acute crises, like the fuel crisis earlier in the year. It is in fact responsible for most of the characteristic economic evils from which we are suffering.

Inflationary pressure must be distinguished from open inflation. Happily we have not had open inflation, in the sense of a cumulative upward movement of prices and wages, to any great degree. Open inflation has been kept in check by the controls. Evil though inflationary pressure is, open inflation is a still greater evil. And therefore those who argue that many controls are needed to prevent inflationary pressure turning into open inflation are entirely in the right. But such a defence of the controls does not meet the case of those who urge that the inflationary pressure should itself be terminated. Once that was done, most of the controls would be unnecessary. There is

a danger, however, that in the coming period the inflationary pressure will be intensified. The greater this pressure, the stronger and more widely ramifying the controls will have to be, if they are to succeed in preventing this pressure turning into open inflation. And the greater the pressure, the more inefficient are the controls likely to be, and the more widespread the growth of black-marketing activities.

I must ask the reader to bear with me in a brief economic analysis, which is the basis of the practical comments that fill the greater part of these pages. Professional economists will no doubt recognise the technique of the late Lord Keynes. In the popular mind he has been associated recently with such international economic matters as the Bretton Woods Agreement and the American Loan to Britain, and also with our cheap money policy, which has been carried out on the broad lines laid down by him in his writings. Cheap money is an important aspect of our present policy, and I shall revert to a discussion of it later. But there is something which plays a more important and fundamental part in the thought of Keynes, and which has had profound influence throughout the world, and that is his technique for analysing the causes of unemployment on the one hand and of inflation on the other. Whatever criticisms of this technique, whether of detail or principle, may be deemed to have validity, few would deny that it is most peculiarly apt for analysing the existing situation in Britain.

Work may be divided into that which is devoted to increasing the capital equipment of the country, and that devoted to producing goods for consumption in

the current period; the latter includes that devoted to producing those goods for export which are required to buy imports for current consumption. Incomes are distributed as remuneration for work of one kind or another ; part of these incomes is offered for the purchase of goods for current consumption and part set aside as saving. The latter part must be deemed to include the undistributed profits of companies. If, when the economy is fully employed but not under pressure, the savings are sufficient and not more than sufficient to finance the work done on capital account, we have a position of equilibrium. If the work ordered to be done on capital account is insufficient to make use of all the savings, there will follow a tendency to unemployment in the system. If, on the other hand, the work ordered to be done on capital account exceeds the sum total of savings there will be inflationary pressure. Inflationary pressure may be identified with an excess in the flow of purchasing power over the flow of goods coming forward, or an excess of total demand over total supply.[1] Keynes, looking upon the world as it was during the decade before 1939, was naturally more interested in the former eventuality, with its consequences of depression and mass unemployment. The alternative eventuality was dealt with more explicitly in his earlier volume, the *Treatise on Money*, than in his last work. Such alterations as he made to the doctrines of the former treatise

[1] Throughout these pages, the expression "inflationary pressure" is used for the excess of the one of these flows over the other. As so used it has nothing to do with the phenomenon of a large volume of short-term paper in the capital market, nor with the high level of bank balances and of the currency circulation. These are discussed at the close of Chapter III.

do not affect the relevance and validity of the diagnosis there set out in its relation to the present situation.

It will be well first to elaborate this doctrine without reference to the foreign trade position. The pressure induced by the programme of capital outlay's being in excess of available savings may have two effects:

(i) If the economy is uncontrolled, the total excess of demand over supply will cause a rise of prices and thereby of profits. A high proportion of these profits may be saved, and if the excess of capital outlay is only moderate, it may be successfully financed by the extra savings so generated, the consumer meanwhile being squeezed by the high prices. But if the excess is great (as it is in Britain to-day) the great rise of prices will lead to wage demands, and so to the vicious spiral of open inflation and to a complete disruption of the economy. If on the other hand the economy is successfully controlled, the excessive capital programme will not give rise to a great inflation of profits or increase of savings, and it will have to be balanced in some other way.

(ii) The second effect of the excessive capital programme—and this is the important one in a controlled economy—is to cause a run-down of stock-in-trade. The excess of total demand over total supply finds vent in the progressive exhaustion of stocks.

The depletion of stocks may be regarded as a negative capital outlay or "living on one's capital," and may offset the excess of outlay on fixed capital over available current savings. This depletion of stocks is an aspect of the "inflationary pressure" and is a great obstacle to productive efficiency.

I lay some emphasis on this point. My main charge against the Government, namely that it has put into operation excessive capital programmes, may encounter resistance in the minds of business men, who may judge from their experience that industry is being starved of capital. Not enough provision is being made for capital outlay, they argue. There is no contradiction here. My meaning is that the big government-sponsored programmes give rise to pressure that makes it impossible for industry in general to add to its working capital or even, in some cases, secure adequate maintenance of its existing capital.

So far this analysis is in large part academic, since it has omitted reference to foreign trade. If it is possible for a nation to run a deficit in its foreign trading account, the pressure due to the excessive capital programme may find vent in an adverse balance of trade. The total demand for men and materials, that being the consumer demand plus the demand flowing from the capital programmes, being greater than the supply, the difference may be made good by taking it off the exports. Exporters find that they lack men and materials to expand their trade. Part of the consumer demand is met by imported goods which are not paid for, since they are not balanced by exports.

This is precisely what has been happening in Britain. The excessive capital programmes have exerted some pressure in the ordinary inflationary sense of raising prices, they have exerted a greater pressure in causing a run-down of circulating capital and industrial maintenance, and they have exerted the greatest pressure of all on the balance of trade, causing a large deficit.

Now it was the precise intention of the American and Canadian credits that they should enable us to run an adverse balance of trade for a time. This is one and the same thing as saying that they were intended to enable us to execute a capital programme in excess of current savings without being subject to undue inflationary pressure in our internal economy. They enabled more money to be spent on capital account than was being saved, because part of consumer spending power was applied to the purchase of imports that did not have to be paid for. Or, in other words, we were given a breathing-space before having to divert enough men and materials to making goods for export to pay for all our imports.

The Government deficit must be remembered in this connection. Expenditure by the Government over and above what it takes in taxation exerts a similar effect in the economy to that of capital outlay and must be balanced by normal savings if it is not to create an inflationary effect. The American and Canadian credits helped us through the transition to a more or less balanced budget.

I shall argue that had we, as the budget deficit was reduced, kept programmed capital outlay within reasonable bounds, we should now in mid-1947 be very near the end of our troubles in regard to both the adverse balance of trade and the inflationary pressure in our domestic economy.

In the popular mind it is generally supposed that continued shortages are an inevitable aftermath of the war and, perhaps, due to the world situation. Certain specific shortages, of grain or of soft wood, are due to the world situation. But the general all-pervasive

shortage of materials, and of man-power too, is directly due to our having put into operation programmes of capital outlay which exceed the savings of our people plus the money coming to us from the foreign credits. If we had not put those plans into operation on that scale, we should not have the all-round shortages. And we have therefore to place against any advantages which may be derived from the capital outlay this undoubted evil of inflationary pressure and the low level of output consequent upon it.

This, however, is not the only reason for criticising the excessive capital outlay. That outlay will cause the adverse balance of trade to continue right up to the point at which the credits are exhausted[1]—and beyond that point to the extent that it remains possible to let debts abroad continue to mount up. What it is important to understand is that we can only eliminate the adverse balance of trade by reducing the capital outlay to a figure equal to the current savings of our people. The only question is whether we make that reduction in an orderly way now, or have it forced upon us, with resulting confusion and chaos, when it becomes no longer possible to add to our borrowings from abroad. Make no mistake; it will be impossible for us to proceed with capital outlay in excess of our own savings when foreign assistance no longer enables us to make up the difference. A number of items will have to be terminated; they should never have been started without a proper calculation of whether our own savings plus the foreign credits would suffice to see them through.

[1] This has already happened, save for the residue of the Canadian credit.

The radical mistake that we seem to be making now, despite the quoted statement from Mr. Attlee and some welcome assurances from Mr. Dalton, is to think of the remedy for our troubles primarily in terms of exports and imports. They cannot be cured by action on such lines. The shortfall of exports, which continues, is merely a by-product of the excessive capital outlay. That outlay is absorbing labour and materials, which are required for, and could be used by, exporters. Many of our exporters now have to tell their customers that they can only give delivery after eighteen months or two years. It is quite certain that if and when a balance of trade is achieved, work on the excessive capital schemes will have to be suspended for lack of labour and materials.

Consequently it is possible to substitute for the general expression "trying to do too much" the more specific one of "excessive capital outlay." This at once narrows the field. We no longer have to survey the vast problem of the employment of our twenty million people in all their various pursuits. It may be that there is much to criticise there in a general way, but such criticisms are not relevant to the central problem which is giving rise to the crisis. We can concentrate our searchlight upon that sector of the economy which is making goods on capital account, and is estimated by the *Economic Survey for* 1947 to be 20 per cent. of the whole.[1] It is here, and here only, that reductions in plans will have to be made if we are to remedy all the evils that flow from "the attempt to do too much."

The total capital outlay in the nation is a matter

[1] Cmd. 7046, page 31.

for which the Government cannot possibly in existing circumstances disclaim responsibility. I list the following among the reasons.

(i) The Government is pursuing a cheap money policy. By holding the rate of interest below the level to which it might rise but for the Government operations specifically designed to keep it down, it makes itself responsible for substituting some control in place of the brake that high rates of interest might otherwise impose upon capital projects.

(ii) The present policy of material and price control may remove a check in the form of high prices, which might otherwise serve to operate in restricting business plans for immediate capital extensions.

(iii) The Government has controlled, or is about to acquire control over, a large area of our basic industries and services, and it has a policy in respect to them, which it has repeatedly affirmed.[1]

(iv) The Government has clearly assumed responsibility for the scale of the house-building effort, one of the greatest users of capital.

(v) It exerts a general supervision over the capital development undertaken by private enterprise, by giving licences for factory extensions, etc.

(vi) For these purposes any Budget deficit must be reckoned as part of the nation's capital outlay. It serves, in the same manner as other forms of capital outlay, to set up inflationary pressure at home and an adverse balance of payments abroad.

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[1] e.g., in Cmd. 7046, page 25 and elsewhere, and in Mr. Attlee's statement on August 6th (1947) that we should " concentrate as much of our resources as we can on the reconstruction and development of our basic industries and services."

(vii) A unique responsibility has devolved upon the Government by reason of the American and Canadian credits. They were advanced for the specific purpose of easing our transition, and it was incumbent upon the Government to see that they were applied for that purpose and not for other quite different purposes.

In view of all this the Government cannot disclaim responsibility for the volume of capital programmes in the country. Yet it has not been called upon to present an account, and has in fact presented an unbalanced account (Cmd. 7046). To see that the foreign credits were rightly and properly spent might almost be said to have been its primary duty during the transition. It has not performed this duty.

As soon as the amounts available under the Loan agreements were known, the Government should have assessed what could be spent on capital programmes (*a*) from the current savings of our people and (*b*) with the aid of these credits, and seen that the capital programmes of the nation were limited to the sum of these two amounts. It should, indeed, have striven to keep them below the sum of these two amounts, in order to leave something over for the urgently needed industrial re-stocking. It has always been well known that at the end of a war there would in the natural circumstances of the case be an abnormal pressure for capital outlay of various kinds. It was therefore clearly the duty of the Government to watch this very closely, to see that planned capital outlay was within our means, and to give gèneral warnings and discouragement, as well as to exert controls, if there was a prospect of this capital expenditure proving excessive. The general drift of their policy both in their own plans and in

their attitude to the outside field has been the opposite.

There has been a general and understandable tendency to think of the American and Canadian credits entirely in terms of our foreign balance of trade. By very careful handling this approach may be validly used. It is apt to create confusion. It is in any case only a superficial method of considering the problem. The better approach is to view the matter in terms of capital outlay. The proposition that is absolutely fundamental in this connection and that must always be borne in mind is that *the adverse balance of current foreign payments must necessarily be identical in amount with, and is indeed the mirror image of, the excess of current domestic capital outlay over current domestic saving.*

The primary object of the Loans was to see us through our transition, to put us in a position in which we did not have to divert men and materials at once (which anyhow would have been quite impossible) to making the exports we need to buy our imports. Those who opposed the American Loan were probably not aware of the extremity of our situation on VJ-Day. Had we not obtained the money from America, we should have had to seek credits from other nations less well able to advance them,[1] or relapse into a condition of semi-starvation and total inability to get our factories working again on a peace-time basis. It is quite another matter proposing to seek for further assistance after the two years of transition in which we should have put our affairs straight. It has been said in criticism of the American Loan that it postponed the need for the nation as a whole to face up to realities;

[1] Compare Lord Keynes, House of Lords. *Hansard*, December 18th, 1945, Col. 791.

but it was beyond our physical power to make both ends meet at that time; the Government, on the other hand, knowing that the Loan was for a finite amount only, should have faced up to realities at once in its plans. It is not very clear in what way the ordinary citizen has been induced by the Loan to fail in his duty; low output per man has been mentioned, but it would have been very much lower had we not had the assistance of the Loan.

The best way of putting it is to say that the American and Canadian Loans should have enabled us to carry for the time being a Budget deficit (which is equivalent to capital outlay) and also to undertake capital re-equipment by an amount together of some £1,250,000,000 in excess of what our people were releasing for those purposes by their current savings. That £1,250,000,000 could have been made, by careful budgeting, to see us through.[1]

It is grossly unfair to say that we have squandered the American Loan on tobacco and films. If consumers, denied tobacco and films, had succeeded in spending their available incomes on anything else, for example on home-made goods, that would have been just as bad for our balance of trade, for it would have diverted a corresponding amount of men and materials from the export trade. Indeed in the long run it would have been worse for our balance of trade, because every export market that we do not gain or regain now is in danger of being lost permanently. Is it suggested that the consumers should not only

[1] It now appears, however, that nearly half our drawings upon these credits have been used, not for this purpose at all, but to liquidate debts to other countries which were incurred during the war.

have done without their tobacco and films, but also without any possible substitute amenities or recreations? But this was not intended by those on either side who negotiated the Loans. It was not intended to grind our consumers down below the wretched level of war-time. On the contrary it was intended that they should carry on at that level or a somewhat higher level while the transition to a solvent post-war economy was being eased by the foreign advances. I do not consider that the consumer has on the whole had any more than he should have had, consistently with the terms of the Loans and with a proper recovery of the nation. It is a mere accident that we buy our tobacco and films from America and that these items are always mentioned when the use of dollars is spoken of. That part of the Loan that has not been dissipated in paying off old debts to other countries has in effect been spent upon the expenses of government, particularly in the early period, to the extent that these were not covered by taxation, and upon capital construction at home; these have absorbed (many times over) the man-power that could otherwise have been devoted, and would normally be devoted, to making the exports required to pay for our tobacco and films.

What we did, and had no right to do, was to make plans for capital outlay greatly in excess of the easement that was being provided for us. That course of action is responsible for the present crisis, the end of which we have not yet seen.

Quite apart from the merits of the items on which the capital outlay has been planned, and I shall discuss them, our course of action was not strictly honourable. It has put us in a position in which we can make an

ad misericordiam appeal for more money. Whatever the Americans may think of this, it is undoubtedly bad for our morale and for our standing in the world, and it has had a bad effect in making our planners still think it justifiable to postpone squaring their accounts. Our case is exactly analogous with that of a young man who has been given a start in business by some rich relations with the aid of a capital sum. He is given, say, £10,000 to acquire some accommodation, equipment and stock, and it is understood that he must do his best with this and repay the money by easy stages later in life. He then proceeds to spend much more than the stated sum in buying a fine outfit. He pleads after the event that it was absolutely necessary, that he could never hope to run a successful business on less, and that now he is so distressed by his creditors that unless the relations advance him more money he will have to close down. He did not take the precaution of asking the relations in advance whether they did not think that in all the circumstances they would like to let him have £20,000. This is precisely what we have done in connection with the American and Canadian credits. Our only excuse is the extremely muddled thinking that has prevailed in all quarters on this subject.

We have seen that an excessive capital programme presses both on the balance of trade and on the home market. How much it presses on each depends upon the precise circumstances of the case. It presses upon the balance of trade by locking up men and materials which are wanted for producing exports. It presses upon the home market by diverting men and materials away from the production of consumer goods and by

preventing the industrial pipe-lines from being refilled.

It is only fair to say that the Board of Trade has by its export drive limited the adverse effect on the balance of trade. Had we not had any export drive, had the authorities taken the view that we might under cover of the American Loan leave the exporting programme alone for the time being, then no doubt more goods would have been available for the consumer. By pushing this policy to an extreme it is conceivable that we might for a short time have got rid of the inflationary pressure in the home market completely. Goods might have come forward in all the varieties wanted to satisfy consumer needs to the full limit of their purchasing power, and the industrial pipe-lines might have been refilled. Meanwhile we should have run out of the American Loan much more quickly. Our happy condition would have been extremely short-lived. Such a policy would of course have been disastrous. The present crisis would be a much more violent one.

On the other hand the export drive might have been more assiduous than it has been. Many producers testify that they could have been exporting considerably more than they have been, even with their limited man-power and materials, but that they have been under no particular inducement to do so, that all the business of obtaining export licences is very tiresome, and that anyhow it is more advantageous to them to satisfy their clients in the home market, who provide a more steady and reliable demand than the clients abroad, and whose custom, if their needs were not met, might be lost to competitors. Had the export drive been more intensive and *had capital programmes*

at home remained the same the inflationary pressure in the home market would have been correspondingly increased. Consumers' purchasing power would have been still more greatly in excess of the goods required to meet it and the industrial pipe-lines would have been even emptier than they are. It is very important to consider this alternative, because it is the one to which we are now being driven. As the inflationary pressure, the excess of purchasing power over goods available, is increased by the export drive and the import cuts, the tendency to rising prices in the home market will be intensified. It should be noted that the increased exports and reduced imports will both diminish the flow of goods to the home market, but neither will diminish the purchasing power coming forward to buy goods in the home market. In so far as some of the articles whose prices rise are regarded as more or less necessary, there may be a disposition to extend rationing and other forms of control. This will intensify the pressure that exists in the free part of the market. It is hardly likely that an attempt will be made to bring every single item under control. At the same time black-marketing activities are bound to increase speedily. If this development takes place, our whole economy will deteriorate. If, on the other hand, an extension of controls is not attempted and prices are allowed to rise over a significant area, there may be pressure for further wage increases. There is serious danger that the inflationary pressure may degenerate into open inflation. At the same time all the difficulties from which industry is now suffering owing to the shortage of key components will also be intensified, and production per man is likely to decline.

All this can be avoided by reducing capital programmes to proper dimensions, that is, to what can be covered by the current savings of our people. If this is done, and only if this is done, can we avoid both the evils of insolvency abroad and intensified inflationary pressure (not to say inflation) at home. It is obvious, therefore, that the programmes of capital outlay must be reduced, and reduced right quickly. One may mention a reduction of £500,000,000 p.a. as a minimum target figure. Ministerial speeches in the Debates of August 6th and 7th unhappily showed no indication that an overhaul on this scale was in contemplation.

Yet there is need of the utmost haste in reducing our programme of expanding fixed capital, while it can still be done in good order, which means in the next few months. Then our balance of trade problem will be solved.

Something of the same sort is proceeding in many European countries, with similar consequences, namely adverse balances of trade. Some countries, more deeply devastated, have more excuse and greater justification therefore than we have for applying for Marshall assistance to see them through. But there is a serious danger that these countries may become reckless, with our example before them. The plan recently worked out by Monsieur Monnet for France is altogether untimely. No doubt it is most desirable that France should in due course effect a radical reconstruction of her basic industries and services. But it is still more important that she should not embark upon these ambitious courses until she is restocked with working capital and has solved her own

problem of inflation. What Monsieur Monnet has done has been to set out in a formal manner with French logic and precision a plan containing all the defects of the capital programme that we have blundered into in our more empirical way.

The result of a number of nations going ahead too quickly and beyond their means is a general all-round adverse balance against America, which is not doing so. If America is willing to assist these countries out of the superabundance of her resources, that is excellent. If and when she expresses her willingness to do this, then the various countries should go ahead, provided they each plan to keep within the limits of the assistance allowed by the Americans. What is actually happening is that by going ahead without guarantee of help they are setting up adverse balances, which lead to a state that they politely call a " dollar famine." This is one of the most absurd phrases ever coined. " There is a terrible manna famine this month," says the young wastrel, who grossly overspends his allowance, manna being the familiar name known to his cronies for the money that comes from poppa. One should always think of this young man, when listening to serious-looking statesmen and bankers who pronounce that the evil from which the world is suffering is a " dollar shortage." Think of him also when they say that the Americans are so shockingly ignorant, that they do not understand our problems at all. The multilateral system being a more economical method of housekeeping recently urged by father, they say that " the multilateral system will never work so long as there is a dollar famine." They propound this doctrine with all seriousness, as though the dollar famine were

some new kind of disease or some new kind of profound and technical economic disorder that was due to certain subtle workings of our trading or banking system. In fact it is no more than the young man going forward and living beyond his resources without leave. It is not a question of the Americans forcing their goods upon us; we desperately need them, but have not chosen to allocate a sufficient quantity of resources to producing goods by way of exchange. The situation may arise in future when the United States is not willing to take a sufficient supply of goods in return, and this eventuality has been foreseen in the Bretton Woods plan; but at present there is a market there which could take many more goods than it is getting, so that at present blame cannot be cast upon the Americans. This allegation of a "world dollar shortage" is surely one of the most brazen pieces of collective effrontery that has ever been uttered. Or is it not brazen? Do these bankers and experts really think that they are talking sense? Has the sustained mental and moral effort of combating Hitler before and during the war been so great that the mind of the European man is atrophied and he will accept in good faith any phrase, however nonsensical, as an anodyne?

(ii) *The Course of Events*

In 1946 Britain's position was not so bad. Exports had more than trebled in two years. In the last quarter of 1946 they were running at nearly four times the level of 1944. The adverse balance had been reduced in 1946 to £400 million. But if we subtract the expenses

of the Government abroad, the adverse balance was only £100 million. Allowing for the change of prices, this was actually less than our adverse balance in 1938 (£70 million). This was an astonishingly good result. According to Mr. Dalton,[1] we had at the end of the year spent less than £150 million out of the American and Canadian credits.

Nor does the situation appear on the surface to have been seriously out of hand if we look at the capital account. On this the author of Cmd. 7099 is the highest authority. The net budgetary deficit was £407 million.[2] Our net capital outlay was £714 million.[3] This £1,121 million in all was found to the extent of £721 million [4] by the savings of our own people and to the extent of £400 million by drafts on foreign credits of one kind or another. This really suggested a rosy prospect. If only the Budget deficit could be removed in 1947, and capital outlay limited to the 1946 level, we should pass out of our period of unbalanced trade during 1947 with the greater part of the American and Canadian credits still unspent.

This does not mean that we should have thought at that time that we could afford to splash about or relinquish our grip. A prudent man does not relax until he is safely home. Yet it would be well for the pessimists, who are now so panicky, to reflect how near to solvency we already were by the end of 1946.

Yet our doom had already been written up, not by the course of events in the outside world, nor yet by

[1] Speech in the House of Commons of August 7th, 1947.

[2] viz., Table 18: item 55 minus item 57 and minus item 58.

[3] viz., Table 18: item 60 minus item 63.

[4] viz., Table 18: item 53 minus item 54.

the cold spell and predetermined fuel crisis of February, 1947, but by the deep-laid plans already made by our unwise Government. This appears from the Economic Survey for 1947 (Cmd. 7046). The author[1] of that document writes up our prospective net capital outlay for 1947 to £1,100 million, namely £400 million more than in 1946. This would be enough to wipe out all the benefits of a balanced budget, if that could be achieved, and make it quite certain that, unless unexpected favourable events came to our rescue in 1947, we should have an adverse balance of trade of some £400 million in that year.

No doubt this estimate was based on decisions taken long before the paper was compiled. It is not known how much detail the author of Cmd. 7046 had at his disposal in making his estimate. It may be presumed that he would not be inclined to overstate the sums involved in our capital programmes, since he would not wish to give a greatly exaggerated picture of our insolvency. Subsequent events have given a rough confirmation of the correctness of his estimate.

If there is one capital item to which, above all others, priority should be given, it is the refilling of our industrial pipe-lines. For this is more needed than any other form of capital outlay to increase our efficiency and thereby our exports and our rations. Refilling the pipe-lines is certainly the kind of purpose for which the American and Canadian credits were intended and for which it would have been quite proper to spend further drafts upon them. Yet no

[1] I use the singular noun for convenience in referring to these White Papers, even where the authorship may be guessed to have been multiple.

provision at all is made for this item in the *Economic Survey*.

Reference has been made to the necessity of compressing capital outlay to the volume of current savings forthcoming for the finance of them. The uninstructed may tend to think that restocking does not have to be provided for out of current savings, on the ground that many firms have already set aside reserves intended to be used for precisely this purpose. There is a fallacy in this notion when applied to the kind of global account for the nation with which we are here concerned. An individual company will naturally feel entirely justified on sound financial grounds in using a reserve, set aside for that purpose, for rebuilding its stock-in-trade, and in normal times it will be able to do so without disturbing the national economy. But this rebuilding of stocks entails a draft upon men and materials at the point of time at which it is made, and not at the point of time at which the reserve was originally set aside. If a large number of companies rebuild their stocks simultaneously, that constitutes a draft upon national resources at the time at which they do it. It is a draft additional to that constituted by current consumption on the one hand and fixed capital increase on the other. One cannot use more resources of men and materials, ultimately of labour power, in any period of time than are there at the disposal of the nation. If all these resources are taken up in producing consumer goods and extensions of fixed capital, there will be none left over to produce goods needed for an increase of stock-in-trade, however much reserve the companies may have accumulated with a view to purchasing this net increase of stock at

the appropriate time. The companies will find, as they have in fact been finding, that they simply cannot acquire the goods to make this increase in their stock. Or if a particular company absolutely insists on acquiring this extra stock, that can only be done by increasing inflationary pressure elsewhere and causing a run-down in some other quarter. To put the matter in another way, if the companies have been holding their reserves in the form of money, by using that money to buy the extra stocks they increase the stream of money which is in circulation and applied to the purchase of goods, thus setting up an inflationary pressure. If on the other hand they have been holding securities which they sell out in order to make the purchases, those securities have to be bought out of the current savings of the people and thereby make those savings unavailable for other purposes. In national accounting, therefore, it is necessary to include the use by companies of their reserves to replenish stock-in-trade as part of the total capital outlay which has to be covered by *current* savings.

The author of Cmd. 7046 shows himself much too learned not to be well aware of this fact. The omission therefore in the Survey of any specific provision for refilling the pipe-lines must be taken at its face value. It may have been a deliberate act of policy, the higher authorities thinking that there was no room for this item; in that case it was a mistake of the first order. Or the author of the Survey may have been unable to secure sufficient attention from the higher authorities to get a decision on the point. This, if so, is equally bad. This omission may be but a symptom of the

view which, one must infer, is held by the higher authorities (though not by the author of the Survey) that capital outlay only need be decided upon by reference to its general merits, and not by reference to the limited amount of resources available to finance it. That has been the root mistake in this whole unhappy business. Meanwhile our pipe-lines remain unfilled. Apart from the question of interruptions in factory production, which have already been mentioned, it has the effect of making our whole economy terribly vulnerable to a disturbance in any part of it. For instance, in the case of some minor industrial dispute, instead of its being cushioned, as it is in normal times, by the stocks of materials and components widely dispersed through the economy, so that production can proceed as usual even although the inflow of a particular supply is interrupted, in existing circumstances the dispute leads to a hold-up of work over a far wider area than that in which it is taking place.

It is a point of the utmost importance that the plans for capital outlay, which led to this untimely and disastrous rise in the 1947 estimate, will not be confined in their effects to the year 1947. Factory-building in depressed areas and generally, railway electrification, the reconditioning of the basic industries, housing schemes, satellite towns even in due course, etc., all imply activities which will last a number of years before completion. It is not my contention that any one of the specific schemes is wrong in itself, but only that they should have been postponed, either in part or in whole, until our foreign trade was in balance and our supplies of food and raw materials thereby secured. It may be said with

assurance that if the schemes had been postponed in this way, so that, when undertaken, they could have been carried out in good order without interruption, we should have more houses, electrified railways and reconditioned industries in existence in 1955 than we shall in fact have in consequence of our injudicious haste.

The important point is that the jump up in the capital outlay figure in 1947 did not represent £400 million only, but the beginning of a long-lasting and expanding programme. If it had meant an increase of £400 million for the one year only, to be followed by a corresponding decrease of £400 million p.a. thereafter, however unwise one might have deemed it (since it meant postponing getting into our export markets, which if not captured during the existing opportunity may be subsequently lost permanently), yet we should at least foresee daylight in 1948 and have no need to consider our position desperate. We would have taken an unnecessary risk; we would have run our margin rather fine; but we would be in sight of solvency. But according to present plans the £1,100 million will have to be repeated in 1948 and possibly expanded. It will not of course be achieved in 1948 in fact, but that is only because all these plans will meet with a rude and wasteful interruption. The £1,100 million is, it is true, only a paper figure [1] and may be based in part on past experience. To the extent that this is so, there are grounds for alarm. These various schemes cannot be

[1] It may be noted that gross capital outlay is set down at £1,700 million, the difference being covered by the normal depreciation allowances of firms.

begun at once at full scale, so that the total effect of the decisions taken does not show itself at first in achieved output. The schemes gather momentum as they proceed and absorb more and more resources. It is the existence of these schemes which is by far the biggest cause for anxiety now. Certain other factors which have added to our troubles in 1947 will not recur. But the expanding capital programme will take us further and further into the bog.

In the first six months of 1947 our adverse balance of trade, as officially reported, was running at approximately £530 million a year; since these figures value exports at f.o.b. and imports c.i.f., it is probable that this trading deficit is not far removed from our total adverse balance of foreign payments on current account, shipping and net financial earnings roughly cancelling our current Government expenditure overseas. It has been seen that if the estimate of Cmd. 7046 for capital outlay in 1947 was correct and savings in 1947 ran at the same level as in 1946, we should expect an adverse balance on foreign account of £400 million. The actual rate of adverse balance of £530 million p.a. in the first six months of 1947 is sufficiently near this £400 million to give some confirmation to the estimate of Cmd. 7046. The higher rate of £530 million p.a. may be accounted for by certain adverse factors. First, it may be that some amount of real Budget deficit in 1947 has to be added to the estimate of capital outlay.[1] Then of course there has been the

[1] Sir Hubert Henderson holds the view that "Whether you appeal to the conventions of our financial traditions, taking them as a whole, and not picking and choosing between them, or whether you consider the net effect of government finance on the aggregate of money incomes, there is unquestionably a substantial deficit." (Address delivered at the Annual Meeting of the Royal Economic Society on July 4th, 1947.)

fuel crisis. By reducing incomes, this will have reduced the volume of available savings. (It will be remembered that the £400 million is the *difference* between capital outlay and available savings.) As an offset, however, the crisis will undoubtedly have reduced the volume of capital outlay. The rise of foreign prices may also be a factor; much has been attributed to the rise in United States prices; but it must be remembered that not all imports come from the United States, and that our exports have also risen in price. Whereas our imports in the first quarter of 1947 had risen by 23 per cent. in price over the first quarter of 1946, our exports had risen by 13 per cent. This worsening in our terms of trade is very serious, but it must not be exaggerated into the main cause of our present troubles. Taking into account the various adverse factors mentioned—and it is of course desirable to budget against the possibility of unforeseen adverse factors—the adverse trade balance running at £530 million seems to agree roughly with the plan for an excessive capital outlay of £400 million. If only we had not made programmes for this extra £400 million, and if our adverse balance for the year now seemed likely to stand at only £130 million, there would be no crisis. I do not hesitate to set down as the main cause of our troubles that unwarranted additional capital programme for the finance of which no plan was made by the Government responsible for it.

But there is a secondary cause of almost equal immediate importance. The American and Canadian credits have in large part been used not for assisting the recovery of this country, which was the purpose for which they were intended, but for paying off debts to

foreigners outstanding from the war and immediate post-war period, or to finance the transfer of capital out of British into foreign securities.

Precise figures have not yet been provided (November 17th), but about the broad position there is not room for doubt. By the end of August, 1947, £1025 million had been drawn from the credits. Our visible adverse balance of trade between June, 1946, and September, 1947, was £573 million. Exact information about the invisible balance on current account is not available. These items may well have been in balance or, at worst, not unfavourable by more than a few millions. Thus the excess of the expenditure of the credits over the current adverse balance was in the neighbourhood of £450 million. The credits were specifically intended to finance the adverse balance *only*; any payments above this may be said to have constituted a misuse.

It is possible that the amount of adverse current balance financed from the credits may have exceeded that shown in these figures, owing to a concentration of outward payments at both ends of the period; and some part of the Canadian Loan was used before July, 1946. The extra that should be allowed under this head cannot be a great part of the £450 million.

The matter may be looked at in another way. On January 1st, 1947, we had £970 million of credit still outstanding. The highest figure suggested for our adverse current balance in 1947 is £600 million. At this rate the credits should have lasted us into August, 1948. With the economies that are now belatedly being effected in the autumn of 1947, they should have lasted us longer. The authorities have pleaded that their difficulties were due to an unexpected rise in American

prices, but this fact is already taken account of in the estimate of a deficit of £600 million for 1947.

In extenuation the authorities appear to plead that it was the adverse dollar balance that we had to finance out of the credits, which was larger than our total adverse balance. This means that we must have had substantial unrequited exports outside the dollar area. But this is in itself a condemnation of the arrangements made by the authorities. They knew the terms of the Loan Agreement as early as December, 1945. They should have set themselves at once to make arrangements in close collaboration with the United States Treasury and State Department, to ensure that when the time came to make sterling convertible, it would be possible for Britain to obtain convertible currencies for her exports. Instead we went our own way in making with various countries Monetary Agreements of a character displeasing to the Americans. Events have proved these unsatisfactory.

Expenditure not covered by the adverse balance should be represented by the acquisition of assets and/or reduction of liabilities abroad of an equal amount. The diverse official figures that have been presented make it impossible to trace exactly what has happened. Part of the amount may be covered by official releases. It must be noted that Clause 6 (i) of the American Loan Agreement [1] reads, "It is understood that any amounts required to discharge obligations of the United Kingdom to third countries outstanding on the effective date of this Agreement will be found from resources other than this line of credit." The "resources" no doubt refer to such assets as

[1] Cmd. 6708.

holdings in the Argentine railways. It would make nonsense of this clause to interpret it as allowing us to use our exports for the discharge of old obligations while drawing upon the credits for the correspondingly enhanced balance of imports. Until a full explanation is given of what has happened to the balance of the credits, one must remain of the opinion that an excessive amount went to the discharge of old obligations.[1]

It appears that in addition to the sum total of releases agreed upon, whatever this was, very serious leakages occurred. This may be inferred from the fact that the authorities deemed it necessary on August 20th to suspend the convertibility of sterling, thereby forfeiting £100 million of the U.S. credit. By suspending convertibility they did not relieve the country of the necessity of meeting its adverse dollar balance on current account from its last remaining reserves of gold or from drafts upon the International Monetary Fund. Furthermore, if certain releases have been automatically suspended by the cessation of convertibility, these could equally well have been suspended to save convertibility. No ; if the authorities thought it was necessary to suspend convertibility in contravention of the terms of the Loan Agreement, thereby lowering the prestige of sterling, adding to our difficulties in many ways and forfeiting £100 million of

[1] It was announced on August 14th that we have agreed to pay over to India in the current year the sum of £75 million. I do not know if this generous gesture ought rightly to be regarded as made with American money or at the expense of food supplies in Britain. One or other it must be. In either case it was illegitimate. It means paying out a much larger sum—in this year of years—than we should have had to pay, had we funded the Indian sterling balances and paid a normal long-term rate of interest together with a normal amortisation upon the whole of them.

good American money, this must have been because they were aware that a drain or leakage of large magnitude was proceeding, and believed that it would continue to proceed and deprive us of more than £100 million after the date of suspension. And this by itself is sufficient condemnation of the authorities. After eighteen months of warning they had failed to make arrangements which would confine the convertibility of sterling to what was required by the Loan Agreement, namely to sterling arising on current account, and would confine the use of the credits to the purpose for which they were intended. These releases and leakages have precipitated our immediate difficulties, and may be put down as the second principal cause, although of course inferior in importance to the domestic capital outlay programme, of the impending cuts in our rations and the threatened "direction of labour."

During the last few weeks before suspension we had to pay out very large sums on behalf of the sterling area, which must represent either voluntary release or leakage. But a word should be said about the £50 million that was paid out in the first six months of 1947. The Chancellor of the Exchequer explained that the sterling area supplied us with approximately £39 million in the last six months of 1946, so that during the twelve months the area only cost us £11 million on balance. But we must beware. There is a serious danger that the sterling area may be infected, under our guidance, with the disease from which we have been suffering. If capital outlay in the sterling area outside Britain is stepped up, then that area will show a growing deficit, which we shall have to finance. No

the dependent Empire is

overdue. We wish to see great improvements in methods of production and in living standards in this area. But here again we must bide our time. Primitive peoples who have struggled in hard conditions through centuries, which we cannot count, must be educated and raised to a higher degree of civilisation. But there is no categorical imperative to take action on a large scale for another two, three or five years. One must view, therefore, with great misgiving the stress which Mr. Attlee laid in his speech [1] on the policy—which figured as one of the three principal positive measures for redeploying resources in this crisis—of "pressing ahead with our plans for the expansion of production in the Colonial Empire." This presumably means more capital outlay there and a heavier adverse balance for the sterling area. If Britain goes completely bankrupt, what will happen to this dependent Empire and to all these plans? At best we can hope that they will be taken over by someone else. No; in this crisis we must do what we can for the dependent Empire without additional capital outlay. Every pound spent there on capital account means a pound extra deficit in the external balance of the sterling area and has to be met by this country. To judge from the speech, it seems that this policy was actuated not solely, nor even mainly, by regard for the welfare of the dependent Empire, but by the fallacious idea that it helps Britain to be able to buy goods from it rather than from other countries. This is of course a mistake; but, waiving that, it would still be wrong from the point of view of the next year or two to sanction extra capital outlay, since the adverse

[1] House of Commons, August 6th.

effect of that upon the sterling area balance must be greater than any relief to it in the form of the extra provision of supplies from dependent Empire production.

(iii) *Absence of informed Criticism*

If the arguments of the foregoing pages are right, our troubles are due to the Government's having rushed forward blindly with excessive plans and made no attempt to consider their practicability by ordinary book-keeping methods. The reader may ask how it is that this has happened. Why is it that the British Government has allowed itself to proceed in this way? And how is it that it has not been rapidly called to order? Socialism as such does not imply that there shall be no book-keeping; and anyhow the Opposition, which is supposed to be the nation's watch-dog, is not socialist. Why has it not drawn attention to what has really been a most extraordinary procedure? There must be something radically wrong in our current thinking which is affecting more people than the Government and their supporters.

To put the matter in the most general terms, I suggest that there was a body of doctrine, which used to be known as "Political Economy" and which was understood by a sufficiently large number of well-informed people to secure that grievous transgressions of that doctrine were not made without challenge. We now have what is known as "Economics," the maxims of which are understood to be different in important respects from those of the old Political Economy. Changes of doctrine are particularly associated with, though not confined to, the work of the

late Lord Keynes. But, to say the truth, the purport of his teaching has only been understood by a very small circle of people. Economics is thought to have become, and in a certain sense has become, much more difficult. The average well-informed statesman or person interested in public affairs gives it up in despair. The consequence is that we have no body of received opinion, fairly widely understood, to take the place of the old doctrines, and there is consequently no force strong enough to check the Government in its aberrations. People are quite at sea in these matters. This fact may have most injurious effects on public policy. Indeed it might well be argued that we should be better off with the old Political Economy which, with all its shortcomings, succeeded for a long time in retaining its hold upon the mind of the average well-informed citizen.

Along with the change in doctrine has gone a development in our economic institutions, which means that the application to practice of the old doctrine and of the new doctrine alike has somewhat changed too. In this connection it might be well to mention one or two outstanding points.

(1) At the beginning of the last century when a man wished to embark on a project involving capital outlay, he had to raise the money from somewhere, either from his own resources, or from his relations or friends, or from persons with whom he had had business connections. Capital projects could not be set on foot without the money being found. By generalising from this fact, it was explained by the Political Economists and perfectly well understood generally that the nation as a whole could only build

up its capital to the extent to which its citizens were willing to set aside and save money out of their incomes. Progress was rightly deemed to be limited by the extent of the savings of the nation. One could not just dash forward introducing any capital equipment that might seem good; one depended on the thriftiness of the people. It was understood that backward nations remained backward, not solely because they were not inventive, but also because they had not developed the virtue of thrift.

Broadly speaking this doctrine was perfectly correct. But with the development of the banking system and the capital market the direct nexus between the man who wished to instal capital equipment and the saver of the funds required for that purpose was broken. The capital market became impersonalised. Savings were directed by the banks and the Stock Exchange towards the points at which enterprise wished to use them. The user tended to think of the capital supply as an almost infinite reservoir from which he could draw, provided that he was able to give the necessary security and willing to pay the necessary interest. How then was it ensured that the total of capital projects in the nation did not exceed available resources? The matter was not left altogether to chance. The simplest way to put it is to say that a balance was secured by the deliberate action of the Bank of England in operating the Gold Standard. If capital development became excessive in relation to the savings of the nation, a drain of gold would occur, and the Bank of England would take the necessary steps by putting up its rate of discount and exerting pressure on the market to ensure that capital outlay was reduced.

The Gold Standard had many implications, it was severely criticised between the wars and I was myself an ardent supporter of the critics. I hold that the criticisms were valid and that it should be possible greatly to improve upon the Gold Standard. But it must be observed that one cannot just remove this balancing mechanism and put nothing in its place. Between 1931 and 1939 there was no tendency to an excessive capital development, so that the problem did not arise. But it was in the mind of Lord Keynes and of other critics that the automatic working of the Gold Standard should be replaced by some form of central control, which would ensure that a situation of inflationary pressure did not occur, which would ensure, that is, that capital projects were not undertaken in excess of the amount of savings that the people were willing to make when they were in a condition of reasonably full employment.

What seems to have happened since the war is that we have thrown over the controlling mechanism of the Gold Standard and put nothing in its place. No wonder that there is confusion and crisis. And the authorities have not been brought to book, precisely because the well-informed public has altogether failed to understand the purport of Lord Keynes's doctrines. These emphatically do not mean that a blank cheque can be given to the Government and to private enterprise to instal any amount of capital that it happens to think would be advantageous.

Not but what there will in due course, despite the absence of the Gold Standard, be some kind of check. In the period before the war we had the Exchange Equalisation Account operating, and, if there had

been any tendency to inflationary pressure, it would automatically have shown danger signals and made it necessary for the authorities to restrict capital development. Now that imports are controlled and subject to a plan, the danger signal takes the form of the so-called " dollar famine." This danger signal would, of course, have appeared long ago but for the foreign credits that were advanced. And this brings us back to the same point, namely that in the absence of a Gold Standard and in the absence of a freely working Exchange Equalisation Account, and in the presence of a large foreign credit which prevented the new kind of danger signal from operating at once, it was incumbent on the authorities to make some kind of deliberate plan to ensure that we were not indulging in excessive capital outlay. One must of course blame the Government, but one must also blame well-informed public opinion for having scrapped an old and well-authenticated mechanism in the form of the Gold Standard without bothering to understand what kind of control would be necessary to take its place.

(2) The old Political Economy was closely associated with the doctrine of Free Trade. This is not the place to consider the merits of Protection. But the practical question of whether it is desirable to have some measure of Protection or not must be distinguished from the body of doctrines on which Free Traders based their arguments, which remain valid With the decline of Free Trade in practice, interest in those doctrines has declined correspondingly, and indeed there has been some tendency on the part of careless thinkers to suppose that they may now be discarded. From the time of Adam Smith until the recent past it was

well understood to be fallacious to draw any sharp distinction between the balance of foreign trade and the balance of our internal economy. Those who thought the opposite were rightly deemed to be clinging to the obsolete doctrine of mercantilism. But now mercantilism, the fallacies of which were understood and exposed in Britain for so many generations, appears to be the order of the day. If foreign trade is out of balance, cut imports and all will be well. No one versed in the doctrines of Free Trade would have given such a maxim any consideration. This recrudescence of mercantilism is doing us grievous injury at the moment. The old school would have said, quite rightly in existing circumstances, that if foreign trade was out of balance it was because we were living beyond our means. There would be no particular point in cutting imports. Imports might be much more important (and in our case clearly are) than other things which can be cut. A cut in imports has no more tendency, so the old school would have said, to put our foreign balance right than any other cut. Modern Economics only seeks to modify the old doctrine to the extent of showing that *if there is mass unemployment* and if the foreign exchange rate cannot be altered or exports increased by any other means, a barrier to imports may serve, anyhow temporarily, to increase employment. But that modification clearly does not apply in the circumstances of to-day, and the old doctrine retains its validity.

Any cut is as good as an import cut, and to the extent that on the whole the goods that are imported are more needed than those of any other kind, any cut is better than an import cut.

But unless we are prepared to move to a much greater degree of control over the individual and to an almost completely totalitarian state, all cuts in consumption are likely to be relatively ineffective in redressing the balance of trade, since the individual when cut off from article A will tend to apply additional purchasing power to article B. The cuts at the best will improve the balance by further intensifying the inflationary pressure from which we are suffering. The general maxim should be that if you want to get the foreign balance right, take your eyes off the foreign balance and concentrate on reducing domestic capital outlay; then the foreign balance will get right of its own. That doctrine would have been perfectly well understood in the days when Free Trade was understood.

(3) Another sheet-anchor of the old Political Economy was the balanced Budget. Lord Keynes and those who thought with him made great attacks on the doctrine of the balanced Budget, on the ground that in times of mass unemployment and deficient capital outlay a Budget deficit might be the most effective way of improving employment. This does not, of course, mean that the question of the Budget surplus or deficit must now be deemed to be any less important than it was deemed before; rather the contrary. For the Keynes doctrine shows more clearly and sharply than the old doctrine the intimate connection between the Budget surplus or deficit and the whole balance of the economy. The Keynes moral is, not that the state of the Budget is unimportant, but that we need not tie ourselves down to the idea of there always being an exact balance, that a surplus or deficit may

be desirable according to the circumstances of the case. It is to be feared that the practical consequences of his teaching upon the mind of the well-informed citizen have not been to sharpen his sense of the importance of the condition of the Budget, but to leave him with a vague impression that the state of the Budget does not matter so much as used to be supposed. Some months ago I was discussing the Budget with a Minister in the present Government, who has won golden opinions, and to my expostulations in regard to the importance of achieving a surplus, if possible, he replied, "Surely you economists have given up the idea that the question of the Budget is of any great importance." That, I fear, is typical.

(4) We now have decisions regarding capital outlay over a very wide field that are no longer based on commercial considerations. The Government decides what shall be done, without meticulous calculation of the yield in its relation to the cost. It may be that in certain circumstances this cutting loose from the pure financial criterion may yield a benefit to the nation. But once again it must be emphasised that these decisions cannot be taken without any sanction at all. One of the more sophisticated arguments, but a powerful one, in favour of the nationalisation or State control of certain industries is that the State will succeed in achieving a steadier flow of capital outlay in those industries, through good years and bad, than private enterprise, influenced as that has always been by the vagaries of the trade cycle. In this regard, then, it was claimed that the State should and would do better than private enterprise. As things are turning out, it is doing much worse. This

is pre-eminently a time when private enterprise would tend to be induced, under the influence of the hyper-boom conditions that prevail, to go forward too hastily with its capital extensions. It was urged that the wise State, once in control of these enterprises, would go slower during the boom, despite the *prima facie* case for expansion, and speed up capital outlay during a depression, even when there was not an immediate financial case for doing so. In fact the State has indulged in greater excesses in this boom than private enterprise ever would. Its whole influence has been to increase rather than to damp down the tempo.

(5) Lord Keynes held the view, which has been fairly widely popularised, that if public works or other capital works were undertaken during a depression, they would not deflect capital from other uses, but, by creating additional incomes, they would generate the additional savings required to finance them. This was in conflict with the old Treasury view that public works would merely deflect savings from other uses, thus causing less work to be undertaken in some other field, and therefore do nothing to create employment. And thus the idea gained ground that one need not regard savings as a sort of fixed fund, but that one only had to authorise additional capital works, and additional savings to finance them would automatically be generated. This is all right; but it must be understood that the doctrine only applies when there are unemployed resources available to be taken up. The doctrine provides a recipe for combating trade depression and unemployment. Nothing could be more fallacious than to employ this doctrine in defence of existing programmes. There will be a certain top

level of savings when everyone is busy and earning income; the £700 million already quoted may well represent the top level for Britain; this might be increased, however, if the crushing burden of taxation were reduced.

If a small quantity of capital outlay additional to £700 million were authorised, this might be financed according to Keynesian doctrine through the profit inflation thereby caused. Prices would rise and the consumers would find a reduction in consumption forced upon them, the difference going as profit which would be saved and would finance the additional capital outlay. But this clearly breaks down if the additional capital outlay is large, as at present. For then a huge profit inflation would be required to finance it, and long before that happened, wages and other costs would begin to rise and we should be involved in the vicious upward spiral. Such large excessive capital outlays make a strongly inflationary situation inevitable, and no pen was more eloquent than that of Keynes after the last war in inveighing against the evil consequences of such inflation. Thus a half-baked understanding of his theories on capital outlay may in the present instances have done much harm.

(iv) *Positive Proposals*

The cuts that will serve a useful purpose now are cuts in forms of public expenditure that use men and materials, and cuts in the creation of fixed capital assets. If Government expenditure which uses men and materials is cut, and the saving retained as a

Budget surplus, that will add to the available savings and to that extent reduce the cut in capital outlay that is required. The Government can itself obtain much the most reliable figure for the total cut required in these two forms of outlay taken together. I suggest tentatively, as a first approximation, the figure of £500 million. Whatever the figure may be, it should be so calculated as to leave some margin for refilling the industrial pipe-lines. Our balance of trade depends on the relation of total capital outlay to savings. If the pipe-lines are to be refilled, fixed capital outlay must be got below the figure of savings, so as to allow some increase to occur in working capital. What are our total savings now? This is a difficult problem. In 1938 net saving was reckoned at approximately £300 million. We must allow for the change in values and also for the fact that people will save more when total incomes are higher owing to full employment. The author of Cmd. 7099 reckons the savings in 1946 at approximately £700 million. Can we rely on this for 1947, or will they be reduced by the fall in incomes due to the fuel crisis? We ought also probably to allow something for an increase of consumption, should the desired goods come into the shops, which it is part of the object of this policy to secure that they should.

If cuts of the required amount were made quickly we might hope to feel the following results:

(1) The foreign trade balance would cure itself. Pessimists urge that we cannot expect a quick result here. But this does not accord with the reports of exporters that they are having to keep their clients waiting long periods for delivery. Our exports leaped

up by more than £500 million in the period 1945–46, and almost the whole of this increase took place in the first six months of 1946. Let the Government do its utmost by persuasion and the facilities it can offer to encourage those working for the export market. But it is no use doing that, as at present, without giving the exporters the men and materials with which to do what is urged. What the Government should say is, "We shall see that capital orders are cut by £500 million and we look to you to see that your exports rise by that amount." That would indeed be a rallying cry. The exporters might then see the sense in what they were being told to do. I should be prepared to go further than this and to announce that in view of these new marching orders we should take the risk of not cutting rationed goods at all this winter. That would give the nation a clear programme to work to and some encouragement. It would know that a risk was being taken, but at the same time it would know that it was being set a task that was practicable. Then, indeed, could one say, "Go to it."

(2) The industrial pipe-lines would fill up and output per man would be increased. When, but only when, this increase of production was realised, it might be found that the amount of capital outlay allowable had been under-estimated, and a beginning could be made on resuming work suspended. Surely it is well known that one ought not to live like Mr. Micawber. First get your income and expenditure in balance, and then it may well turn out that you have a little margin over and above what was anticipated.

(3) This is the only effective way of securing a

redistribution of labour. I do not know what the Government hopes to achieve by the method of industrial conscription. Other proposed methods for securing a redistribution are on the whole ridiculous. It is suggested that in the places to which it is desired to attract labour wages should be increased, special rations provided or special amenities. But in existing circumstances only small sectional rises in wages can be encouraged, owing to the just fear that the inflationary spiral may be set to work. Furthermore such a scheme implies a " wages policy " which would grievously interfere with the traditional methods of collective bargaining. This would be a great infringement of liberty and a serious onslaught on the historic position of the trade unions; Socialists and anti-Socialists ought therefore to join forces in resisting it. Differential rations may be justified where there is a clearly established difference in the physical need for calories. But as a method of attracting labour to move from one place or trade to another it is surely most degrading. And, as for the amenities, we want proper amenities not only in certain selected industries but throughout industry, as and when we can afford them. If more capital is spent on increasing amenities now, this will add to our difficulties and necessitate a further cut in the food rations. But when we look forward for five years, high priority should be given to improving amenities throughout industry.

But whatever is done in regard to these differential advantages, amenities, wages and so forth, is it really expected that men and women will be attracted on a large scale to leave the jobs in which they are now securely placed, in order to go to these other jobs to

which frills are to be attached? The differential wages and the differential amenities would have to be very large indeed to produce such a result. No; the only way of getting a redistribution of labour is to terminate the jobs of those who are doing work that is not needed, work that is outside the national plan for solvency. That is no dereliction of liberty. I do not think that any claim has ever been made that people should be retained indefinitely in given jobs, whatever the work that they were doing was. The claim is that, when one job comes to an end, another job shall be readily available. That is the claim that was not recognised in the decade before the war; failure to recognise it was the source of the burning and righteous indignation that was felt against that pre-war economy.

Lord Beveridge laid down the proposition that there ought to be more vacancies than men to fill them. What he presumably meant by this maxim was that there should be a *few* more jobs, so that a man whose particular work was terminated could find another job fairly readily. He cannot be credited with meaning that there should be hundreds of thousands more jobs than men to fill them, which is our present situation. Such a state of affairs completely obstructs the smooth functioning of our economy. A large-scale reshufflle between jobs now might, it is true, be a cause of annoyance to the persons affected. But what is that by comparison with the formidable hardships with which the whole population is to be confronted this winter? If those thrown out of their existing employment were able to place themselves anew within a few weeks, there should not be a serious cause for complaint. There has been a

large exodus from the textile industry, and it may well be that the factories where the workers are now engaged are more up-to-date and decent. None the less these workers could have had no legitimate expectation when they went to them during the war of being retained in them indefinitely. When displaced, they will naturally find their way back to their old places of work. There should be a solemn undertaking that conditions in them will be improved, not immediately but over a term of years.

(4) Some of the labour displaced from heavy constructional work would surely find its way to the coal mines, where it is so important to increase the force. I am in entire agreement with those who regard the fuel shortage as a problem of the utmost urgency. Methods for improving supply seem less well considered. The value of further mechanisation may or may not be exaggerated; but it is certain that it cannot effect a substantial increase of output within the relevant period. What is wanted is a larger labour force. Wages in coal-mining should certainly be handsome, with a margin to offset the special hardships, ardours and risks that are attached to this occupation. Such wages should attract a sufficiently large labour force, if, but only if, we put an end to the present total man-power shortage. It is by no means proved that men are no longer willing to go into the mines. So long as labour is tied down in heavy constructional work of apparently indefinite duration, why should it, indeed how can it, go into the mines?

(5) Goods would reappear in the shops. There would be a vast saving of time and hardship by the reduction of queues. Friends of the Government have

recently put about the delightful argument that queues, so far from being a hardship, are a source of pleasure as giving an opportunity for the queuers to meet one another and have a little gossip. Ask the working women!

The reappearance of goods would have a doubly beneficial effect. It would relieve the women of hardships and, in cases where they are industrial employees, reduce absenteeism. It would also have a beneficial effect on the productivity of the male breadwinner, who is inevitably bearing some of the brunt of the present conditions. But also it might well add to the incentive to work. The man, who at present finds that he can obtain the money he needs by working less than a full working week or by refusing overtime, might take a different line if his wife was pressing him for money to buy goods which she saw and coveted. (At a later stage we may hope that most working-class families will run their own car, as in the United States, and this should help to sustain output per man in Britain in the long run.)

In fact if these cuts in capital outlay were made, we should within a reasonably short period get back to that level of well-being, somewhat reduced for the time by comparison with 1939, towards which I suggested in Chapter I that we ought now to be moving.

It is sometimes argued that these remedies would not produce a quick result. But why not? We secured a far bigger turnover of the labour force at the end of the war than that which I am proposing. During the war there were five million people at work on making munitions and equipment of one kind or

another for the Forces. By June, 1945, this figure had been reduced to 3.7 million, by December, 1945, to 1.7 million and by September, 1946, to half a million. This shift was carried out fairly smoothly and without severe unemployment. Why should not the much smaller shift here proposed be made equally expeditiously?

(v) *Capital Projects Reviewed*

Finally, however, the reader will feel that some hint should be given in regard to the actual economies that might be made. Too much detail must not be expected. It is not possible for an outside person who has not access to the relevant information to form a good judgment or speak with authority on details. He can do little more than ask the Government to balance the nation's accounts. Outlay has to be reduced by £500 million. The Government expenditure which uses men and materials is estimated in Cmd. 7046 at £2,100 million. It surely ought to be possible without great strain to reduce this by, say, £150 million. This leaves £350 million to be found by reduction of capital outlay, which is programmed by the same authority for 1947 at £1,700 million gross and £1,100 million net. The cut required is only 20 per cent. of the gross figure and only 32 per cent. of the net. It must be borne in mind, therefore, in the discussion which follows, that it is not proposed to sweep away the items of expenditure under review, but only to make a substantial reduction in them. Furthermore, if the reader feels that some of the items are more urgent than they appear to be to the writer,

he must bear in mind that these cuts will have to be made willy-nilly when the final crisis comes, for lack of materials to proceed with them. And again he may remember that it is not proposed to abandon these lines of development permanently but only to postpone them for two or three years until they can be undertaken in good order. The more quickly they are suspended now, the sooner will it be possible to revive and complete them.

If it is held that the objects upon which the money is laid out are all of supreme and urgent importance, there is an acid test which can be applied. They can all be done if the Government is prepared to find the money by taxing the citizen and producing a Budget surplus of the required amount. What one has to ask, therefore, is not whether these various objects are desirable in themselves, but whether they are so desirable as to be worth the extra taxes that would have to be borne. This is a test that we all have to apply to our own private expenditure—is the object worth the money it costs? There is nothing in the nature of things which can exempt the Government, representing the taxpayer, from applying the same test. Extra taxes, onerous as they would be, are still a better means of finding the resources than starving our export industries and thereby cutting off our food supplies.

It is just possible that no system of taxes could find all the money required for the present projects, and therefore that all these projects cannot be continued save by a complete enslavement of the whole people. If it is desired to find, for instance, £500 million extra money to yield a Budget surplus to finance the surplus

capital outlay, it would probably be necesssary to obtain more than this by way of extra taxation. The estimate that a Budget surplus of only £500 million is required implies that the citizens are also finding out of their voluntary savings some sum approaching £700 million. To the extent that the new taxes reduced this figure of savings a still larger Budget surplus would be required. It may be that an extra £700 million would have to be found; it may be still more. It may be that the reaction on saving would be so severe that it would prove impossible from the two sources to make up the total sum of money required except by the complete enslavement already referred to, that is by imposing a ration on every single item of consumption. The limit of taxable capacity is a reality. We may think with a wry smile of the use of this phrase in times gone by; now it stares us in the face. If the reader will keep in mind these appalling suggestions, he will perhaps appreciate that some of the items to be discussed might reasonably be deferred.

The general maxim that should have been promulgated by the Government at the time of VJ and instilled into all its departments and into the industries over which it has control or influence, is to make do with existing equipment wherever possible. The British have a certain talent for this kind of improvisation. Now is the moment to get the last ounce of work out of a machine before replacing it.

The Government appears to think that this is a time to make a complete reconstruction in the equipment of our basic industries and services. In Cmd. 7046, the paragraph (116) which urges a serious

scrutiny of capital projects, explicitly excludes "the big programmes for re-equipment of basic industries and services." And, more alarming still, Mr. Attlee, speaking in the House of Commons on August 6th, makes it his first and foremost point among the "positive measures" for dealing with the economic crisis this winter that we must "concentrate as much as we can on the reconstruction and development of our basic industries and services." What is all this about? There are certain urgent things, it is well known, that must be done. A speedy increase in the electricity-generating capacity must have high priority. Projects for plant were deferred during the war and should have been put in hand at the end of it with full pressure. No doubt they are expensive, but the sums involved are small by comparison with the vast totals we are considering. But this is not the time for a general "reconstruction and development of our basic industries and services." Some had hoped against hope that this high-sounding phrase, so often repeated, was a mere piece of window-dressing, standing for nothing real, or standing for a programme that would be executed later when more immediate problems were solved. But when Mr. Attlee makes it his first point for positive measures this winter, one has to take it seriously. The British Prime Minister is the British Prime Minister; and Mr. Attlee is a man whose words have absolute reliability. And, alas, the large estimates for capital outlay confirm that work on a great scale is planned. It is really a tragedy.

By "basic industries and services," transport, fuel (in all its forms) and iron and steel are presumably meant. These industries have two characteristics.

One is that they are capable of absorbing really large amounts of capital. The general run of manufacturing industries—motors, light engineering, textiles, pottery and so forth are very small users by comparison. The machinery in the latter industries, so important for our export drive, could be completely modernised—I do not imply that this should be done at once—for a small fraction of the capital required for " big programmes " in the basic industries. The other characteristic is that the benefits of improvement are widely diffused and spread through time; one does not expect a recoupment of the cost in two or three years. And linked with this is the point that where there is a very fine system in existence, which has done service for many decades, it is sure to have latent reserves of usefulness. It is a case where one can make do for another two or three years. Our export drive will not be killed because our railways are running rather slower than one would wish.

Our transport system had to carry a tremendous load during the war; the eastern coastwise shipping was suspended; there was a concentration of imports upon the western ports; vast masses of raw materials had to be carried to the munition factories and vast masses of war equipment transported. No doubt in consequence of this the railway system is somewhat battered, and, by careful budgeting, enough must be allowed to keep it going. But it has served us well, is a magnificent system and is quite capable of carrying on with a minimum of renewals. What could be more grotesque in the existing situation than to proceed with the scheme for electrifying the L.N.E.R. line to Southend? It is said that the immediate

target has been reduced to electrification as far as Shenfield. I have myself seen, on several occasions recently, gangs of men at work upon the lines. Overhead girders are used. A scheme of this sort is bound to absorb a vast mass of materials of diverse kinds as well as constructional labour.

On the very day that sterling was declared inconvertible, an extensive scheme for electrifying the Manchester-Sheffield main line and certain connecting lines, totalling seventy-five route-miles, or three hundred track-miles, was announced. It is to cost £6 million. The construction of a new double-line tunnel parallel with the existing tunnel, which extends for more than three miles under the Pennines, is to be undertaken. The overhead-line conductor system, using direct current at fifteen hundred volts, is to be employed. Electric locomotives will be fitted complete with electrically heated boilers to maintain steam-heating in the passenger trains.

No doubt the feelings of the reader were assuaged when he learnt that this scheme is calculated to save about 100,000 tons of coal a year. Anything that saves coal must be good! A paradoxical situation for Britain! But it is necessary to be more precise. Even at the present reduced level of output from the mines, it only takes 382 men to produce 100,000 tons of coal a year. Meanwhile the scheme will employ at the very least 12,000 man-years of labour spread over four years. So we are to expend 12,000 man-years now in order, after four years, to save the labour of 382 men in the coal mines. Then there is all the steel required for the overhead girders and the mass of electrical equipment. All this will be drawn off the

export trade and serve to reduce our rations. Meanwhile a large part of the 12,000 man-years of labour required will be heavy constructional labour, of the precise type required for coal-mining; and there are plenty of coal-mines not far away. Instead of tunnelling through the Pennines, these men should be tunnelling through coal-seams. If all this work was suspended, and no other work of similar nature allowed, no doubt many of these men would actually find their way to employment in the coal-mines, provided that conditions of work and pay there were an adequate compensation for the rigours of that occupation. Those who felt disinclined to go to coal-mining should not, of course, be compelled to go there. Other occupations will remain available. It would be quite absurd to regard the termination of all this work, which is costing our people their meat rations, as what Mr. Bevin calls "direction by starvation."

It may well be that this scheme has been carefully worked out and will, if amortised over 20 or 30 years, or whatever the period may be, economise the nation's resources. But this is not the right time. Let plans be made for electrifying railway lines and extending utility services, but let them be deferred except in cases where absolute and urgent necessity can be shown.

The programme is so topsy-turvy and contrary to all good sense, that one wonders how reasoning men can endorse it. Have we here another example of an atrophy of thinking-power induced by the strain of the war? Or are there politics in it? Supporters of nationalisation have recently used the argument that the test is efficiency, that capitalists have shown

great inefficiency in certain industries, and that the State must take over these particular inefficient industries in order to do better. I associate this argument particularly with the name of Mr. Morrison. Now there is no doubt that the future historian will not set this down as the reason why proposals for nationalising certain industries were brought forward by the present Government. Having explained the origins and doctrines of socialism, he will show how certain industries were selected as being, by their large scale of operation or because of cartelistic developments in them, particularly suitable for the first experiment, the first move in the introduction of total socialism, with the profit motive everywhere eliminated and all citizens employees of the State. He may add that it was precisely because these industries were "basic" (not, mark you, inefficient) that they were selected. He may also add that some members of the Labour Party had become less interested in total socialism and were more attracted by the idea of Lord Keynes that it was important to get some kind of control over the great capital-using industries, in order to steady capital outlay and thus prevent the recurrence of phases of acute unemployment; he would then show that nationalisation was the typically socialist method of implementing this idea. Such were the considerations that actually determined the course of events; the question of efficiency did not at most do more than play a minor part. (It may have had some greater importance, however, rightly or wrongly, in the case of coal-mining.)

But it may have been thought that the majority of voters would not necessarily be willing to endorse

the doctrine of total socialism; and the objective of steadying capital outlay may not arouse enthusiasm on a platform. So inefficiency was brought in. I am not accusing Mr. Morrison or anyone else of disingenuousness. It is easy to persuade oneself. The minds of some Labour leaders may themselves have moved away from the goal of total socialism, with the small shop-keepers and the rest brought within the State net. They may have wished to give the thoughts of their followers a new orientation and to turn their attention away from the evil of profit as such to inefficiency. Admirable!

But then they may now feel it incumbent upon them to substantiate their claims. How would it do at the next General Election if the " basic industries and services " were still in a rather laggard condition? No great schemes of modernisation and re-equipment completed! Why, the State could be represented as no better than the private owners.

But really, in this time of great emergency, when so much in the nation's future is at stake, cannot we drop all this? Cannot we forget the arguments, whether they were good arguments or bad arguments? Cannot we come together and do what is sensible and best now, to help the country? Could not leading members of the Opposition help by coming forward and saying: " Whatever criticisms we may make at the next General Election, and we shall smite you hip and thigh, we shall not hold it against you that you changed front in 1947, and, when the country was in peril, dropped your old slogans?"

The programme of new factory building should be suspended. The *Statistical Digest* for 1947 shows new

factory buildings approved in Britain at £137,394,000. This is a gigantic and unprecedented figure in peacetime in a country which has, after all, a notable history of manufacturing achievement. Why? The manufacturing labour force has not greatly increased since 1939. During the war much new floor-space came into existence. Factory floor-space can be converted from one purpose to another in many cases. No doubt in certain cases a very special type of building is required. If plans approved had been strictly limited to those, the figure for authorisations would be a minute fraction of £137 million. To the extent that all this building has not been completed, a quick saving of men and materials can be made by suspending the work immediately. In the development areas, out of an approval of £76 million only £4 million was complete at May 31st, while £32 million was under construction. Supposing factories under construction to be half-finished, £56 million could be saved by immediate suspension.[1] £56 million will buy quite a lot of food. To this must be added the savings accruing from non-development area suspensions.

It is to be noticed that of the £137 million authorisations, £76 millions were for the development areas. This is no doubt part of an excellent project for diversifying industry in those areas. It is a matter of the greatest importance that these areas should not be allowed to relapse into a condition of depression, and the Government should be congratulated upon its manful intention to put right what was so long neglected in the 'thirties. But, again, this is not the time. We

[1] An exception could always be made in favour of those almost completed.

are not threatened with unemployment—except through inability to buy materials abroad, and that, if it happens, will be due to our having devoted our resources to building factories instead of to the export of goods. And what use will the extra factories, in development areas or elsewhere, be without the materials? Is it suggested that there may be a number of unemployed in the development areas who will not move to where they are needed? But is it seriously contended that the nation is to be cut in its food rations so that resources may be found for a colossal programme of factory-building, to meet the wishes of those who are alleged to be unwilling to move to places where their work is so urgently required? The Severn Bridge was no doubt part of this scheme. On July 31st the Minister of Transport announced that it was intended to begin construction of this bridge, with the third largest centre-span in the world, at a cost of £9 million, next spring. It was announced that "preparatory work for building the foundations of the main piers and anchorages is nearing completion." Was this preparatory work only paper work? It is surely to be supposed, in view of the terms of the announcement, that orders had already been given for components. It is true that, after a protest had been made, Mr. Attlee announced on August 6th that, "The Severn Bridge is not being put in hand at the present time." May we from this derive confidence that any orders for parts that had been placed have now been cancelled? Nothing that was subsequently said can alter the fact that an announcement was made a week earlier, with all the implications that it carries. Either the Ministry of Transport was out of touch with

the central planning body on July 31st, or that body was already at that late date thinking that such things as these were right and proper. £9 million is a substantial sum of money. It must be added to the £76 million for factory-building in the development areas. And what of all the other items of constructional work that will be required to support these new factories if they are to be properly serviced with utilities?

The question of new machinery for our industries, especially for those whose products have to compete in world markets, is a somewhat more subtle one. The general maxims should be as follows: make the greatest effort to extend research, get out new designs, produce pilot-models, make blue-prints for the reconstruction of your plant; concentrate also on market research, especially the study of foreign markets; make an intensive study of managerial methods and seek to get improvements; instal new machinery where this can be shown without doubt to yield a substantial and undisputed reduction of cost; but be as sparing as possible in fresh capital outlay, especially where this involves heavy constructional work.

There has been much talk lately of the laggardness of British industries; unflattering comparisons have been made with their counterparts in America. It is said that British industry is insufficiently capitalised and that we ought to set a target of raising considerably the ratio of capital instruments to men. There may be much truth in all this, although there is a great danger that a dictum of this sort may become a fashion and a fad. Experts assure us that the superiority in American efficiency is by no means solely due to higher

capitalisation, and that there is not higher capitalisation in all cases. A more important cause of the difference of output per man-hour is said to be American superiority in managerial methods. Well then, let us concentrate upon them now. Let us aim at raising our managerial methods to the American pitch without any delay at all. That is a line of progress which will not deprive our people of their food. Then let us proceed at a later stage to the intensification of capital equipment. That is the appropriate order of events.

In practice it is usually found, where there is inferiority of efficiency, that this is due to a vast number of complex and subtle reasons. Each separate case requires its own careful study. There is no means of evading this necessity. A general slogan such as "Raise the quantity of capital per man" may be merely an escapist refuge from the necessity for this hard thinking and study.

In any case it has always been unlikely that the increased capitalisation will yield the increased output required for our short-period problem. New machinery has its teething troubles and does not produce its hoped-for increase at once. Moreover these new installations upset the labour force and may make that more harmonious management of labour, which is so greatly needed at present, more difficult to achieve.

I am not suggesting that, where there is no doubt that a new bit of machinery will make a substantial saving of cost, it should not be installed. We have our £1,300 million[1] of capital per annum (or whatever

[1] I take the figure for *gross* savings here, viz., current net savings at £700 million p.a. plus current depreciation-allowances at £600 million p.a., since current (but not accrued) depreciation-allowances are available in addition to net savings to replace obsolete by new machinery.

the precise figure may be) that can properly be used, and such a large amount should go some way. In calculating a comparison of the cost of production by the new machinery with that by the old machinery, it is important to remember that the new machinery should be charged with interest and amortisation, while the old machinery should not. This is the right method of comparison from the point of view of the national advantage of the new installation. This point was clearly explained in the admirable note of dissent by Mr. Clegg and others to the report of the Cotton Working Party, published last year. This minute of dissent is a classic document and its principles should be applied in all industries. An indisputable case was made for going slow in the re-equipment of the cotton industry, but the Government has apparently thought differently.

May I add, as a digression, that the proposal to instal a two-shift system there appears to me to be an intolerable outrage during this phase of British history. It is no doubt a by-product of the altogether exaggerated ideas that have become current about the gravity of the long-term national position. Two-shift working is most damaging to social well-being. The housewife has her husband wanting meals at one set of hours and her son at another. Home life is deranged. Outside interests are curtailed; regular attendance at clubs, discussion groups or other forms of social activity—all of which we hope will grow with gathering momentum in the coming years—is impossible. Economists are often unjustly charged with being pure materialists and having no regard to wider social questions. Well, here is an instance. The economist on the Cotton

Working Party, Professor Jewkes, did not pronounce in favour of two shifts.

This issue must not be confused with the quite separate one of organising two shifts during the electricity supply crisis, to relieve the peak load. This may be an important measure of assistance, and our people may properly be asked to endure this hardship for two or three years until the electricity supply position is restored. The proposal in regard to the cotton industry is of quite a different character. It is that the whole of this industry, which plays so important a part in the life of Lancashire, should go over to two-shift working permanently. That seems a most retrograde step in planning for the coming decades, in which we hope that the standard of living and well-being of our people will be raised, not degraded. If the new machinery cannot be made to pay without two-shift working, that is a very good reason for not installing it. One argument which has been used is that the man-power shortage in textiles is so great that, since we need to maintain textile output, we must instal new machinery which will produce somewhat more per man, although at the cost of two-shift working. But that is accepting the man-power shortage in the textiles as an ineluctable and permanent fact, a sort of law of nature. That is wrong. Although there may be some difficulty in getting man-power back to the textiles in a short period, there should be no difficulty in the long run. When in due course a slump appears, it is hoped that the Government's full employment policy will sustain activity; but it should not sustain such a high pressure of demand for man-power that it is impossible to get labour to

move to the points at which it is most needed. Incidentally, the overblown short-run capital outlay programme is preparing the way for such a colossal slump when the programme is completed—the greatest slump ever experienced by Britain—that it is by no means certain that all the devices so far thought of will serve to cure it. The Full Employment Policy White Paper,[1] issued by the Coalition Government, and approved, it is understood, in principle by the present Government, envisaged active measures by the central authorities to ensure that needed capital outlay was more evenly spread through the years. Now that the present Government has decided to intensify the boom in capital outlay and rush ahead with far greater abandon than private enterprise ever showed, what becomes of the full employment policy?

It is important that working people should be provided with amenities in all the various industries and factories. But where this involves capital outlay, postponement is necessary. After all, the wives of these same workers will suffer if food rations are again cut in consequence of capital expenditure on factory amenities. To take an example, a management may decide that a new kitchen and canteen would be a valuable improvement. Amortising the cost over ten years, it may calculate that this would work out at £2 per worker, and decide that such a sum can be allotted from its resources. In normal times this might be done without further repercussions, but in the present time it increases the national difficulties. The point may be put to the workers themselves—would you choose to have this new canteen and kitchen

[1] Cmd. 6527.

at the cost of so much off your rations? It must be explained that although the construction of this particular canteen cannot have an appreciable effect on the nation's food supply, it is necessary in such a case to argue from the particular to the general and to ask what would happen if all the other factories also erected new canteens. This principle is not beyond the comprehension of the ordinary man; it was well understood during the war. Few succumbed to the argument that whether they as individuals chose to shirk or not it would not make any difference to the defeat of Hitler. They understood that the argument must be generalised and the question put in the form—what would happen about Hitler if everyone shirked in a similar way? And so if the canteen is to cost £2 a head, one may say—would you rather have this and so much less food? But how much less? Not £2 less, but £20 less. For although it is proper to amortise the cost over ten years in a financial calculation, the cost to the nation here and now in this year is £20 a head, and the nation's capacity to buy food abroad reduced by £20 a head. So that the question has to be put in this form: would you rather have the canteen now and £20 worth less food for your family during the year, or would you rather postpone the erection of the canteen until, owing to the changed man-power situation, it can be done without any cut in your rations at all? If the question was put in this way to the men, there is no doubt what the answer would be.

The whole movement of thought has been towards encouraging capital outlay in the last two years. The E.P.T. refund is an example. The sellers' market,

which always occurs in an inflationary period, is an inducement to extension of capacity. Business men tend to believe that the easy market will last and proceed further than prudent calculations, taking into account the impending falling off, would justify. It was to be hoped that this tendency would be reduced by deliberate Government policy, but this does not appear to have been the case. If a producer can get a licence for factory extension at this time when it is so difficult to get licences to do various other things, he may think it sensible to get in "while the going is good."

The nationalisation programme may have set up a vicious circle of unnecessary capital programmes. One facet of the argument already referred to as used by supporters of nationalisation against the better-informed type of critic is that only the Government can afford to provide the vast capital required for a radical reconstruction. (This would not be such a plausible argument if it were appreciated that in the last resort the Government itself can only provide what the general public is willing to save.) Meanwhile other industries, visited by Working Parties, get busy with plans to show that they are enterprising enough to envisage and finance large-scale reconstructions, in order to fend off the threat of nationalisation. So the vicious circle proceeds.

£50 million has been allotted to the Coal Board in the current year. It is not in the least likely that installations of this value will actually be made in the period. But there is a danger that orders on a large scale will be given for equipment and thus lock up men and materials in their production, even although balancing items of equipment necessary to complete

the scheme are not forthcoming for a long time. This, from the short-period point of view, is sheer waste. It remains a matter of doubt by how much output can eventually be increased by large-scale modernisation of the mines. It is certain that we shall not get a substantially quick increase of output in this way, and yet it is here and now that the men and materials will be locked up in the production of the equipment. No doubt much renovation is required in the mines; quite apart from the question of output per man, it is needed in order to make that improvement in working conditions to which the mineworkers are assuredly entitled. Here again we have a programme justifiable in itself, but postponable in the situation in which the nation now is. What is wanted in the coal mines in the immediate future is more man-power. This is being provided, but at an insufficient rate. The only way to accelerate the flow of men to the mines is to give effect to the large-scale cessation of constructional work which I have been advocating on so many grounds.

There is general agreement that coal-mining should have a very high priority. Widespread conversion from coal to oil-using plant is absorbing a great quantity of labour and steel, as well as steel for oil kegs. This again, being a capital item, is using up at the moment far more resources than can be released by the superior efficiency which the oil-using plant may achieve. If the problem of coal output were solved, the coal-to-oil conversions could be suspended to the great advantage of the nation.

House-building is the greatest user of capital of all. The utmost sympathy must be felt for those in difficulties

through the housing shortage. Public opinion would have justified any government in setting aside a large portion of our resources for a house-building programme. None the less it must be admitted that the programme has been excessive, although the completion of houses for use during two years has been unsatisfactory.

Undertakings in regard to housing played a considerable part in the General Election of 1945. It must be confessed that the tone and implications of the undertakings were somewhat foolish. Since we are a democracy, and are proud of it, it is really incumbent upon politicians to talk good sense to the voters. The implication of the campaigning seemed to be that voters should return the party which had the greatest drive and the warmest heart in relation to the sufferings of the people; that these were relevant qualities to secure the provision of houses; that it was simply a question of giving prompt orders, not leaving letters unanswered, providing subsidies, and, in general, giving a boost to all concerned with house-building. All this has its place, but it is not the central requirement. The question was and is how the nation could be made able to afford any given programme out of its savings. Means for achieving this should have been indicated. It would have been to the point, for instance, to propose a colossal savings drive. Alternatively or additionally, spokesmen could have promised to make the most slashing cuts in various forms of Government expenditure, so as to promote savings by tax remissions, or, more drastically, so as to build up a Budget surplus with which to finance the houses. And again, the spokesmen should have

promised to hold all other forms of capital expenditure most ruthlessly in check, so as to clear the road for the housing drive. They should have promised, for instance, to let no factories be built, so that the people could have their houses. And they should have promised to restrict to the utmost all other forms of capital expenditure, since all these indirectly compete for the available resources. These are the points that should have been stressed, rather than the possession of drive and good-will, for it is on these former that the sustained execution of the large housing programme must depend.

I do not wish to seem in quoting statistics to be trying to prove away the housing shortage, which undoubtedly exists, or to belittle the hardships due to it. None the less it is salutary to consider the statistics. About 257,000 houses were destroyed by the blitzes and about 230,000 new houses have already been provided. And about a further quarter of a million are now under construction. Since 1939 the population has increased by about 208,000; if this increase was normally distributed in families it should give rise to a demand for about 50,000 more houses. According to these bare statistics the ratio of houses to people, when those houses now under construction are completed, should be higher than in 1939.

The main difficulty appears to be, however, that the number of family units, requiring separate residences, has increased much more than in proportion to the population. This is an important factor in the situation. It does, however, give rise to the thought that greater attention should have been given to splitting existing structures into convenient separate residences

than to building new structures. After all this is not a time at which most people require more floor space per head to live in. Some, who have been used to domestic help, are not getting it; others, owing to the prevailing difficulties of shopping, have less time in which to keep the home clean. And it should be noted that standards of meticulous cleanliness in all classes of society have greatly risen since the Victorian period; every speck of dust has to be scoured away from the corners. In these circumstances it does not seem sensible to concentrate on providing more and more floor space per head. This is not to deny that some hundreds of thousands of slum dwellings urgently need replacing. The palpable housing shortage, which is out of all proportion to the extra numbers requiring accommodation, but is associated with an increase in the number of family units, daughters going off and setting up on their own, etc., suggests that there may be a good deal of occupation of unnecessarily large premises. This may not be unconnected with the system of rent restriction, of which I shall say more in the following chapter.

The housing shortage may also be connected with the redistribution of the population. This may not be wholly unconnected with the distorted capital programmes. If all those in good jobs before the war could get back to doing as nearly as possible what they were doing then and to living as near as possible to where they were living, our economy would probably be in a sounder state.

What I would stress is that there ought to have been accurate budgeting as to the precise amount of capital outlay that should be made annually on houses. In

estimating this, it is necessary, of course, to include not only the actual building costs but the cost of the various fittings. Furthermore, expenditure on movable furniture such as is necessitated by the provision of much extra living space, although it would normally be classified as a consumer rather than a capital item, is in the nature of capital expenditure. It probably tends to reduce the amount of savings in the current year by those who have to make the purchases. Taking all things together, one might suppose that a manageable programme could have been formulated to make up the existing shortage within a period of four or five years from the end of the war. To attempt more is hardly fair to the other sectors of the population who have to bear consequential cuts in their food.

Too great a labour force has been attracted into the building industry. For one thing it is too great in relation to the available materials. This is a technical error of a kind that I should normally prefer to attribute to planning as such than hold as a charge against the efficiency of a particular administration. Given the efficiency of the average human being, we are bound to run into mistakes of this kind in what is called a planned economy. But in the case of housing, on to which such a strong spot-light was focused during the Election, some censure is in place.

Slow work, which is very widely alleged against building operatives to-day, may well be a natural consequence of too large a personnel in relation to the materials and components coming forward. When the men clearly foresee a situation in which materials will run short, it is inevitable that they should tend to spread the work. Furthermore, established operatives

are naturally suspicious of large-scale dilution and are put by it out of a mood of readiness to accede to plans for intensification of output per man. They foresee an end to the present large programmes, and not altogether wrongly.

Before the war the building labour force had been growing, and reached a peak of 1,050,000. But, in general, not more than 900,000 of this number were at work. None the less this force was building houses at the rate of 350,000 a year. The number now in building and constructional engineering seems to match that achieved before the war, and there have been plans for raising the force considerably above this level. If we regard the long run, it must be remembered that more than half the activity before the war was due to the increase of population. The increase of population gives rise to a requirement not only for new houses but also for new shops, factories, cinemas, etc. It is a mistake to suppose that a stationary population, even if growing annually richer, will require an ever-larger amount of buildings. Consequently we have to face the fact that when the immediate post-war troubles are over, we shall require a very much smaller labour force in the building industry, and many who have been attracted to it so hurriedly will have to be displaced from it. All these facts should be borne in mind in working out a sensible and manageable programme for the immediate post-war period, which does justice to the claims of the homeless without doing injustice to the community as a whole.

Finally, one must consider Government expenditure in the narrow sense. For the purpose of this argument a distinction may be drawn between those

kinds of expenditure, central or local, which use up men and materials, and those which constitute transfer payments from one class of citizens to another, namely from the taxpayer to the parents of families, to those receiving one form or another of social security benefit, to those buying subsidised foods, to the recipients of interest on war debt, etc. It is true, of course, that any budgetary economy which reduces disbursements tends to reduce inflationary pressure, provided that the savings are held as a Budget surplus. Even if they are not so held, there may be a somewhat smaller reduction of inflationary pressure in so far as the taxpayer saves (i.e., does not spend on his own consumption) part of the amount by which his taxation has been reduced. In the present situation I would emphasise the importance of reducing those forms of expenditure which use men and materials, technically known as " exhaustive " expenditure. Thus, within the sphere of the Budget I should aim at recommending a policy which does not cut the social services but only public works of one kind or another.

Within the social services, however, some distinction may be made between the provision of services on current account (for example, in the form of direct payments for more school teachers) and capital expenditure. Here again it should be the aim of all authorities for the time being to economise as far as possible in respect to the latter. The point is that in the former case current expenditure is matched by current benefit, while in the latter all the current expenditure has to be met at once, now when we are in this tight corner, while the equivalent value of benefits flowing from it only accrues over a number of years. This is another

way of putting the essential case against capital expenditure. This would suggest that in providing educational facilities the utmost drive should be put into the attempt to secure more books and teachers, but the most rigid economy should be made in the provision of extra accommodation, however unsatisfactory existing accommodation may be. Children may suffer from the inadequate accommodation, but it must be remembered that they suffer also from short rations and from the stresses and strains in the home due to our present troubles. Do the medical authorities also appreciate the vital importance of this distinction? Let them drive as hard as they will in improving medical services on current account, but let them be enjoined to be most cautious in capital extension in the next two or three years.

Surely a big contribution may be made under the head of defence expenditure. Research must go forward and the most up-to-date weapons must be produced. But rigid economy should be instituted in the numbers of personnel in our establishments. From the point of view of international politics and diplomacy, it is far more important to have an economically solvent Britain than a certain number of extra formations.

The existing " call-up " seems a most wasteful affair. If one is thinking in terms of securing a trained body of citizens, ready for an emergency, then the call-up could be pretermitted during the next two or three years, and the need for permanent conscription reconsidered at the end of that period in the light of the international situation as it then proves to be. The gap of two or three years cannot make an appreciable

difference to the military strength derived from having a trained citizen body. Those not called up could be taught rifle-shooting in the evening and given a short period of camp in the summer. It has been said that other members of the community would resent the unfair advantage of those in the gap who escape service. Surely this is a very trivial matter to bring up in this time of crisis. Most men will merely think that those who fall within the gap are lucky fellows.

If, on the other hand, one thinks of the call-up in terms of meeting existing commitments, then it is an extraordinarily uneconomic way of doing so. It cannot but be a great waste of labour power to call up and submit to the slow processes of military training hundreds of thousands of men each year. It wastes their time, and the time of the instructors, and the manpower required to produce their accoutrements for life in the Forces. Furthermore, despite the gallant attempts of the military authorities to introduce an educational element into the period of service, it cannot be denied that a large part of military life in peace-time consists in waiting about. It is widely held that this period of what might almost be called enforced idleness considerably detracts from the efficiency of the men when they re-enter industry. If the idea of national service is considered a good one on grounds of discipline and morale, then let all the young men be called up to do a real job of work in the mines or factories. They will then have the sense that they are doing something each day that is helping the country, and those who are destined for sedentary or responsible positions in their subsequent life will have seen a cross-section of the nation at its manual work and have

learnt something of the conditions and character of the workers. The problem then would be to provide sufficient man-power to meet current commitments. Cannot something be done by obtaining a larger number of volunteers to serve for an additional period? The provision of especially attractive bonuses to those so volunteering would by no means be a waste of the nation's resources, if it prevented the sheer waste of man-power involved in the training of the conscripted recruits. If enough man-power for our commitments could not be found in this way, then consideration should be given to a reduced call-up, a proportion of each age group being chosen by lot. Again voices will be raised that this is unfair, but such a plea seems very poor-spirited in face of our present national needs.

A system of lottery might also well be used to solve the long-term problem. Military authorities do not set much store by the year's training now proposed. In fact we acquiesce in it, although it satisfies no one and wastes man-power, which, if all used on exports, might fill nearly half the gap. Why should we not, as a long-term policy, call up one-sixth of each age group and give it three years' training? It could then be rendered adept in the use of modern weapons. The other five-sixths of the nation would remain untrained—save in summer camps—but in war five-sixths of the armed forces do not come near the modern weapons and do routine duties for which no elaborate training is necessary. This plan would save half the man-power involved in the proposed call-up, including the man-power used in manufacturing accoutrements for the recruits.

Along with cuts in the defence forces, it is obvious that cuts should be made in the Civil Service. The point about this is that the execution of the anti-inflationary policy here advocated would render unnecessary the greater number of controls. This would release not only the vast number of persons engaged in administering them, but also an equivalent number of persons in industry, who are now employed in answering the letters of the Civil Servants. Meanwhile it is reported that a vast building-programme has been approved for accommodation of the Social Insurance staff. If this is so, it should be stopped at once. Since it is to be hoped that the total number of Civil Servants will fall from now onwards, a directive should be issued forbidding any new buildings to be erected as government offices for the time being.

Thus the main remedy for our troubles which I offer is a quick reduction of programmes and orders, widely dispersed over the whole field, a reduction in capital outlay contributing the greater part, and a reduction in exhaustive Government expenditure also contributing something substantial. If this were done, the economy would bound forward to new strength. I believe that things would go right—as they have after previous wars—more quickly than many people would think possible. Our present policy has been in a very real sense deliberately to prolong the agonies of war. The objects of our swollen expenditure may be worthy, but departmental planners and zealots cannot be allowed to continue to batten, as they are now doing, upon the people at large.

I personally resent the cuts which are threatened, on my own account and for the sake of others, personally

connected with me, who will suffer far more than I. It is discouraging that there is not more national indignation, but no doubt many are confused in their minds and prepared to accept the assurances that all this is required for the good of the nation. They acquired this habit during the war, when the assurances were valid, and do not seem to have thrown it off. It may be true also that the people are jaded and living at a low level of vitality. The prolonged period of endurance may have depressed them, so that they are a sick people and no longer show the usual reactions. It therefore seems important that all interested in public affairs should devote some energy to understanding the nature of our troubles and to galvanising opinion. Patient endurance was appropriate in war-time; it is so no longer.

CHAPTER III

THE PRICE MECHANISM

DURING the war great changes were introduced into the functioning of our economy. In most cases the changes arose out of the necessities of the situation. Rationing of essential foods was instituted in order to safeguard for those of moderate or small income a fair share of the available supplies of basic necessities. The shipping shortage, due to convoy delays, the use of ships for the Services and sinkings, was a cause of reduced supplies. Had there been no rationing the price of the essential foods might have soared, or the foods might have disappeared from the market. Rationing made it possible to introduce an effective system of price-control despite the short supply.

The system of control was, however, extended far beyond the sphere of these basic consumer necessities. It may be said that the most characteristic feature of our war economy was the central allocation to various claimants of all important materials. The need for this allocation was bound up with the persistence throughout the war of inflationary pressure. Demand for most materials greatly exceeded supply, and, if free markets had been allowed, we should soon have entered a vicious spiral of inflation. During the war this inflationary pressure was necessary. That is the main difference between the war-time situation and the present situation. Why does there have to be inflationary pressure in war-time? Why does the demand have to exceed the supply?

The first answer to this question is that pressure is necessary owing to the limit of taxable capacity. If an estimate could have been made of the utmost military establishments that could be generated in each successive period, and the whole cost of this could have been removed from the people's pockets by taxes, there would have been no general excess of demand over supply. Under such a system it is just possible, although not perhaps likely, that much of the machinery of Government allocation of materials could have been rendered unnecessary. But although taxes were raised to a heroic extent, they still did not go much more than half-way towards meeting the expenditure of the Government. Why could they not have been raised so as to go the whole way? After all, the people did in fact do without the whole amount of the goods and services that the Government took away from them in order to wage war. The fact that they were not paying out the whole cost in tax does not make it any less true that they were in fact meeting the whole cost of the war—less, of course, what was provided by Lease-Lend, foreign credits, etc.—at the expense of their own consumption or the run-down of their capital equipment.

The fundamental reason why the whole amount required for the war could not be taken in taxes was the diversity of individual circumstance. One man, burdened with many responsibilities from which even in the conditions of war-time he could not escape, could barely make two ends meet, taxed as he was. Another without such responsibilities could afford not only to pay the taxes but also to set aside substantial sums by contribution to savings certificates and other forms of

Government borrowing. A tax system may go some way towards meeting the diversity of circumstances (for instance by reliefs for children); but it cannot go the whole way. Whether the Government achieved the golden mean precisely cannot, of course, be ascertained. But if it had stepped taxes up very much farther than it did, it would have imposed such intolerable hardships on thousands, perhaps millions, of individuals, that the war effort might have been seriously undermined. It is this fact, then, that the Government insists on spending a certain amount on the war effort and that it does not take the full amount so spent away from the citizens, that gives rise to a situation in which the potential total demand vastly exceeds available supply; hence the inflationary pressure which was admirably held in check by a system of universal control.

There is another reason why it would probably have been impossible to dispense with a system of controlled allocations. Even if total purchasing power had been no greater than total supply, some articles would have been in relatively scarce supply. In these cases, prices would have risen. " Supply departments " required to meet military requirements are not deterred in their purchases by high prices. In the case of each scarce article they might have been disposed to buy for themselves, whatever the price, either the whole supply or such a great part of it as not to leave enough over for really vital needs outside their scope. The allocation system was thus required to safeguard the general user against potentially omnivorous buying by the departments supplying the Forces.

The central allocation of materials was therefore

necessary; but, by peace-time standards, it was an exceedingly inefficient system. This is not to allege any criticism of the authorities who worked the system. On the contrary, they worked with a devotion and zeal, with tact, commonsense and shrewd judgment that were truly remarkable. They probably got the allocations much more nearly right than one would have believed possible. Their wits were sharpened by the necessities of war, and their effort kept at high pitch, while foolish inter-departmental jealousies were held in check by the instinct of patriotism.

The various materials had to be apportioned by a central committee. In certain respects the task was easier than it could ever be in peace-time. The needs of war established a certain order of priorities, as defined by the Chiefs-of-Staff and reinforced if necessary by Cabinet directive. And, although at this present time there may still be Cabinet directives, the war-time decision that aircraft should have first priority during the Battle of Britain seems to have a somewhat higher degree of validity than a Cabinet directive now (if there be one) that, for instance, re-equipment of the basic industries should have first priority. Furthermore it is the routine of the Services to make detailed calculations of the requirements for materials which flow from the decision to maintain certain establishments, so that the planners were provided with resultant requirements for innumerable bits and pieces which were much tidier than any list of the requirements for components to satisfy the needs of our export markets could be, however carefully calculated in advance.

All the same the whole process was an extraordinarily hit-and-miss affair. Take the case of some material

in very short supply. The Ministry of Aircraft Production might have first priority, but even so it would probably be sensible to cut it by 10 per cent., to allow for padding in its demand and its own inability to turn materials stated as "required" straight into the production process. The Navy might be cut by 15 per cent., despite the threat of submarines, the Ministry of Supply by 25 per cent., the other departments by more. These others could not be neglected; the coal mines had to be kept at work, the railways running, and some exports were required to sustain the economies of our suppliers abroad. Then, at the end, when a distressing pattern of cuts had been agreed upon, the representative of the Post Office would pipe up with a plea that he must have something, since if internal communications broke down the war would indubitably be lost. His argument was no doubt correct, but how genuine was his demand? His requirement was modest, but, if granted, it would mean still another half per cent. off the Royal Air Force, already cut. Great judgment was no doubt shown; all depended upon everyone playing the game; it was clearly impossible to get the distribution accurate.

The phenomenon of padding has been mentioned. Where the supply is short, this is inevitable. The zealous head of a department, knowing that he will in any case be cut, has an irresistible temptation to overstate his requirements. It was not only a question of the heads of departments, but of all the subordinate directors of sub-departments, who had to work out the details for the total calculation. A man, acutely conscious of the vital necessity to the war effort of the service with which he was particularly concerned,

argued to himself that it was his duty to overstate. Individuals no doubt differed in this respect, some being temperamentally zealous for their own bit of work, others being more strongly conscious of the national necessity for all to play the game and make an honest unexaggerated statement of the bare minimum of requirements. In due course certain departments would get a reputation at the central committee for padding more than others. But this reputation might be unjust, for the individuals often changed and some department might have taken to heavy padding when it still had the reputation for being reliable, and conversely. Attempts were made from time to time to probe for padding. One department might seem to have an exaggerated claim for trousers, another for anti-gas suits. Then experts would examine the accounts in great detail and with much labour, and report back. Although occasional savings may have been made in this way, it was quite impossible for more than a minute fraction of the whole field to be covered by a central staff of reasonable size.

Even if the cuts could have been imposed in an ideal manner, the results would not have been satisfactory. For these basic materials, steel, jute or whatever it may be, have to be used in all the vast diversity of factories making innumerable products and components. The cuts in different materials were not equal, since, for example, the timber shortage might be greater than the steel shortage, in relation to stated requirements. The consequence would be that the various producers could not be sure of getting a balanced supply of their needed components, and their production would be governed by the supply which was most short.

The various users needed components embodying the materials in widely different proportions. The result, as is well known, was the widespread appearance of bottlenecks in the industrial system, right up to the finished products. Aircraft, otherwise ready, would stand waiting for weeks owing to the late delivery of some vital fitting. This was not due in the great majority of cases to inefficiency but to the inevitable shortcoming of the system as such.

There existed in an office near the centre of planning a colonel of intellectuality and zeal. He produced an immense Code Book, which was circulated to the departments. This was intended to embody decisions by the Cabinet or Chiefs-of-Staff as regards requirements, to break them down into the myriads of components involved, all to be assigned code numbers, and finally into the materials ultimately required. Then, presumably, if the supply of materials was inadequate, by a reverse process, highly scientific, it could be calculated to what extent the requirements could not be met. The departments were dumbfounded. Scientific though this method was, could it be regarded as sufficiently flexible to keep pace with the constantly changing needs, methods of production and availabilities? Even in principle there was this difficulty, that, if the requirements could not be met, there would be innumerable possible ways in which they could be cut down. The more scientific the Code Book, the more accurately it should show these possibilities. But the more accurately one tries to show them, the greater the number of possible alternatives. When we enter the realm of permutations and combinations we are apt very quickly to run into numbers of a size

by comparison with which even astronomical quantities seem small. No human mind could grasp them. Well then, it would be possible to select half a dozen typical alternatives and present them to the Chiefs-of-Staff for decision. But this selection would involve precisely the hit-and-miss method which it was to be the purpose of the Code Book to avoid.

There is no solution to this problem of central allocation. It is bound to be very inefficient. The enemy may have been still more inefficient, especially if he tried to be more "scientific" in his methods. The problems are too complex for the human intellect, too complex for a hundred Einsteins duly divided up among the appropriate sub-committees.

But there is a device known to man, a very ancient device, a wonderful mechanism almost magical in its effects, an eternal talisman, a little round piece of metal, of gold, if you like, in fact money. This, acting through what is known as "the price mechanism," has the power of stripping away all padding, of distinguishing the more urgent requirement from the less urgent, the immediately necessary from the postponable.

If it is possible to allow money to operate through a market, so that when a material is in short supply its price rises without any limit, then you can get an accurate allocation of the material to the most urgent needs. It is one thing to make a statement of requirements to a Government department, whom you do not altogether trust to give you a fair deal. It is quite a different matter to offer to pay a high price for the article on delivery. If you make unnecessary purchases, your profits will be wiped out and turned into

serious losses; if you pad your purchase, you may not have storage room for the goods when delivered. The necessity to pay a high price for the article automatically sorts out the bogus from the genuine demands, and the demands that can at a pinch be waived at a time of stringency from the demands that must at all costs be met. This money-mechanism is in fact the Code Book, not rejected by the departments and lying in a cupboard, but in active use, not presenting the Cabinet with myriads of alternatives that make their brains reel, but sorting them out automatically. This social invention has surely greater subtlety and flexibility than any mechanism devised by the physical scientists.[1]

The trouble was that this beautiful mechanism could not be used during the war owing to the inflationary pressure which necessarily prevailed. It can only function properly if over-all demand is roughly equal to over-all supply. If you try to use it when over-all demand greatly exceeds over-all supply, as it was bound to during the war, then you will run into the spiral of open inflation and the whole economic system will speedily be destroyed. But now that the war is over it is highly desirable to reintroduce this beautiful mechanism. It is likely to increase output per man by far more than all the Ministerial exhortations and other devices now under discussion. Voices have recently been raised in favour of reverting to the price mechanism, but this recipe cannot be adopted until we put an end

[1] The late Professor Irving Fisher actually constructed a mechanical model of the pricing system, but he was only able to do this by reducing to a small number the various goods and needs in existence. And he assumed that the relative quantitative strengths of the needs were known, whereas money itself serves to gauge those strengths.

to the inflationary pressure. That is where certain enthusiasts make their mistake. It would be fatal to try to let the price system do the work of central allocation in existing circumstances. But whereas the inflationary pressure during the war was inevitable, it is not inevitable now and could forthwith be terminated by policy decisions on the lines indicated in Chapter II. This is another strong reason in favour of the course of action there recommended.

The war-time system of allocation that was forced upon us, although it served its purpose, was in essence inefficient. There are apt to be popular misconceptions upon this topic. Many are under the illusion that a more efficient use of resources was achieved during the war than had been achieved in peace; people refer to the Mulberries and argue that if such wonderful things could be done during the war, it ought to be possible to be more efficient than we used to be in peace-time also. I do not deny that a high degree of efficiency was achieved on the technical side and in regard to many projects considered in isolation. And it may indeed be true that D-Day was the greatest triumph of efficient co-ordination from top to bottom that has ever been achieved in the history of man. And not D-Day only; I have the impression that the whole British war effort was conducted with an unparalleled degree of warlike efficiency. One cannot argue from this that the deployment of resources in the war effort as a whole was efficient in the sense of being economical. On the contrary there was a vast waste of resources. The following comparison may not be quite accurate, but it is sufficiently near to a rough approximation to carry the argument.

If one took the labour power applied to the British part of the war effort and employed it at a peace-time level of efficiency, one could have constructed with that amount of labour power nearly all the industrial equipment, machinery, railways and buildings that existed in Great Britain in 1938.[1] One would do well to bear this fact in mind in speaking of the efficient use of resources. One may point to the Mulberries and the bomber squadrons and the naval effort and to the far-flung deployment of our resources in this greatest of all wars; but over against what was achieved you have to compare all the railways, all the buildings and all the other fixed capital of the country, constructed over so many generations. When one appreciates that the man-power devoted to war effort was of the same order of magnitude as that required for replacing the whole

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[1] This seems incredible. The cost of the war to us was roughly £25,000,000,000. Reducing this to allow for a war-time rise of prices —since prices did not reach their peak at first, an average rise of 50 per cent. may be a fair figure to take—we have a pre-war equivalent of about £16,600,000,000. The value of all the capital equipment of the country (including all buildings and excluding only roads and armaments) was estimated by Mr. Campion (*Public and Private Property*, 1939) at £15,695,000,000 for 1932–34. This may have increased to some £20,000,000,000 by 1938. Further, to fortify himself in accepting what seems so incredible, the reader may make the following calculation for himself. Let him suppose that the capital and annual output of the country in 1788 was about $\frac{1}{32}$ of what it was in 1938. Let him suppose that 10 per cent. of the man-power of the country during the intervening generations was devoted to adding to the capital equipment of the country and that the total output of the nation doubled itself every thirty years to 1938, by reason partly of the increasing population and partly of the increasing output per head. He will then find that the total amount of effort devoted through all these generations to providing and increasing the capital equipment of the country would produce the same as would be produced by 4·3 times the effort expended in 1938 upon the production of goods of all kinds. The British war effort involved roughly the use of effort, for the six years 1940–1945, amounting each year on average to about 60 per cent. of all the effort expended in 1938. Six times 60 per cent makes 3·6 times.

pre-war wealth of the country, one would hesitate to assert dogmatically that war-time methods secured as economic a use of resources as is customary in peace-time.

This comparison brings out the appalling strain that Hitler imposed upon us and the mightiness of the effort we made. Had Hitler destroyed by atomic methods every man-made object that existed in Britain in 1939 and then said, "I will leave you alone from now onwards," the labour required to put us back where we had been, again at peace-time methods of efficiency—and assuming that the necessary tools could be borrowed and repaid within the period—would have been no greater (approximately) than the labour we actually expended upon the war (*not* including the labour retained during the war for civilian production). No wonder that the country is weary and in difficulties. But the point I want to make now is that it is quite foolish to point to Mulberries, etc., as an argument for holding that war-time methods of productive organisation were more economical and efficient than the methods of the free market.

The proposal to restore the price mechanism brings us face to face with the question of Socialism. Is this continuance of the system of material allocation part and parcel of the socialism of the present Government? Is it cherished and preserved as an example of that "planning" of the economy which they advocate? It does not seem possible to give an answer to this question. There are certainly many Socialists who favour the use of the pricing mechanism anyhow in what is called the "private sector" of the economy. Do these represent the majority? The reason why it is

impossible to give an answer to this question is that we have in existence a perfectly genuine reason why the control method should be continued, namely the inflationary pressure. It is always difficult to answer a hypothetical question in history. What would the present Socialist Government do, if the inflationary pressure were discontinued and this valid reason for continuing the system of control removed? Some unkind critics suggest that the inflationary pressure is being maintained deliberately as an excuse for keeping the controls. That, I am sure, is unfair. The inflationary pressure is due to the excessive programme of industrial reconstruction, building and so forth, which is being maintained, by bad judgment but not by specifically socialist error, on its own merits. And it is doubtful how many members of the Government themselves appreciate that the continued need for controls is tied up with the continuance of the over-blown capital programme. Meanwhile, there are other imperative reasons for reducing the capital outlay and the inflationary pressure. It is to be hoped that this will be done within a reasonable period in any case. This will be the moment for the advocates of the price mechanism to join battle; the inefficiencies of the control system will then be so obvious, the unnecessary bottlenecks produced by it so many, the occasions on which the Government is subjected to criticism by reason of it so varied, that it is hardly likely that they will persist against opposition in continuing with it. Once the inflationary pressure were removed, we could get to grips more closely with what in fact are the present objectives and methods of Socialism. It can be shown that by no reasonable interpretation need

they be deemed to include such manifestly cumbrous and broken-down techniques as the central allocation of materials and import-programming. Socialists themselves might welcome the opportunity for such clarification.

And yet there are grounds for misgiving. The price system appears to have fallen out of favour far outside the ranks of professed Socialists. Some seem to have an affection for such devices as material-allocations and import-programming as being innocuous forms of planning without the sting of Socialism. "Planning" and "Co-ordination" must surely now be the two most debased words in our political vocabulary.[1]

Money is one of the greatest of human inventions, comparable to the wheel or the steam engine. Its rise was contemporary with that of civilisation itself. In periods when it went out of favour, such as the age of high feudalism, the mass of people were in a condition literally of serfdom, and the arts and sciences and civilisation itself were stagnant. And we ought therefore to view with alarm the modern tendency to displace money by fixed prices, import programmes, bilateral commercial arrangements, hard and soft currencies, etc. It is sometimes said that the social sciences are not keeping pace with the physical sciences. But here is a symptom of an actual deterioration in our social arrangements. It can not surely be thought by a reasoning person that the methods of a central material allocations committee can possibly be an improvement on this marvellous product of man's

[1] I say this without disrespect to individuals or bodies such as Political and Economic Planning, who adopted the word before it became debased.

inventiveness—money. Re-education in the understanding of the basic principles of money and pricing is now needed.

Voices have indeed been raised, by reaction to the prevailing trend, in favour of a free pricing system as safeguarding the consumer's liberty of choice. Money is represented as a bulwark of liberty, as indeed it is. Poor and depressed as the working-classes of this country were a hundred years ago—Socialists are apt to say that freedom of choice is only valued by the rich—they instinctively rebelled against the "truck" system by which rations instead of freely usable money were supplied by employers. The "truck" system, which is what we have now, is not so much better for being arranged by a democratic Government. But it is not only as a bulwark of liberty that money should be valued, but also as an instrument of efficiency. It is money that ensures the smooth working of our highly complicated productive processes.

There is no doubt a case for continuing the system of rations for essential commodities which are in short world supply. For the rest we should favour the free movement of prices, not only in the sphere of the productive process, but also in the market for consumer goods. It is feared that a general rise of prices would be oppressive to the poor. But once inflationary pressure was removed, there would not be a general upward movement of prices. There could not be. But people are so obsessed now with the virtues of control that they would deprecate rises in the prices even of particular articles only. Why, they argue, should the poor have to pay more even for these articles? I suggest, on the contrary, that so long as

there is no general rise of prices they would have nothing to complain of. How otherwise secure the supply to those who really wish to have a share of it most? If the existing control system is continued for much longer, these matters may sort themselves out in black markets. But this is not a desirable system either. Much better eliminate the official price and make the free market the whole market. It must be remembered that there are infinite gradations between the very poor and the very rich. The question of the distribution of income should not in general be settled by interfering with the prices of particular objects, but by using the weapons of taxation and allowances to ensure that the distribution of the national income among the classes is on the whole just. Once that is done, it should not be allowed to stand in the way of the increase of a particular price that it might put the article out of reach of the poor man. It is impossible for the authorities to gauge individual preferences. If a particular poor man has a great love for a certain type of article, he will save up for it and outbid a richer man.

Looking at the matter just a little more broadly, one sees that it is not true that the poor man has less to gain from the free working of the price mechanism than the rich. The reverse is true. What is the alternative? Arbitrary cuts in various items of consumption by the authority.

Now if circumstances give rise to some reduction in the national standard of living, say one of 10 per cent., for whom is the need greater to have freedom to make the cut in his own expenditure just where it hurts him least? Clearly for the poor man. If the

adjustment is made for him—as it is now—by rationed allocation, this may amount not merely to imposing hardship, but to downright brutality. This may well be the result of further food cuts. If people must go without, let them at least choose what they will go without. For this freedom of choice they would certainly be willing to accept stiff rises in the prices of certain particular articles. Why are we being asked to go without food, beyond what is necessitated by the world shortage? Why do the people not rise in their indignation? No doubt they are gulled into the belief that those things that cost dollars in particular have to be cut—as though there were any validity in this crudest piece of mercantilist fallacy. We need another Bright to rouse the people to appreciate that there is no need for the injuries that are inflicted upon them.

We appear to have come to take it for granted that the working-class population should not be asked to pay economic rents for its houses. To this end we have the combined weapons of rent restriction and large housing subsidies. What is behind this idea? Is it that the wage-level is inadequate? But in that case why not raise the wage-level by a certain sum and charge economic rents for the houses? That would cost no more for the community as a whole. Let us suppose, merely by way of illustration, that the average value of the Rent Restriction and Housing subsidies is 10s. a week per family. Why not accord 10s. a week by increase of wages or some form of allowance, leaving the recipient free to spend it on his house at an economic rent, or, if he preferred, to squeeze into smaller accommodation and spend the 10s. on

more films, travel, motor bicycles, or any other form of recreation or semi-luxury that pleased him? Why should he not be given this freedom of choice? Why should he be forced to take the extra 10s. which the community arranges to accord to him in the form of extra house accommodation and in no other form?

The historic explanation of this curious arrangement is probably as follows. The great pioneers of social reform discovered that a large section of the population was sunk in shocking conditions and that there was a nexus between the various factors oppressing them—heavy drinking, illiteracy, bad sanitary conditions, personal uncleanliness, low wages and slum dwellings. It was argued, probably with perfect correctness, that it would be in vain to attack any one of these evils in isolation and that a combined simultaneous attack on them all must be made. We must therefore have temperance legislation, a better level of free education, an improvement in health services, a national wages minimum and slum clearance. But this analysis no longer applies to a large sector of the working-class population to-day. There are still slums, and the clearance of them is certainly a most important object of social policy, which should be given high priority. But the combined effect of Rent Restriction and Housing subsidies applies over a much wider field, and affects the great body of our working people who are by no means on the brink of plunging into an abyss of alcoholism and slum-dwelling squalor. In regard to this major part of the people the reason for supplying houses at an uneconomic rent has gone, and it would be more in accord with the better position that they have won, largely through their own efforts,

and with their democratic dignity, to charge an economic rent for their houses and to assign to them the 10s. (or whatever the precise sum may be) to spend according to their own free will and discretion. It may be that they would spend it upon the house accommodation, and in that case the position would be the same as before. But it is possible that they would prefer other modes of expenditure, at the cost of doing with less house accommodation.

In present circumstances this freedom of choice accorded to the self-respecting citizen would by no means be the end of the benefit of reintroducing economic rents. For, if it did so happen that they elected to have more food, clothes or recreation, that need would be far easier to meet at the present time. If a man has an effective demand for additional consumer goods or services worth £26 a year, his extra demand can be met by the allocation to him of an extra £26 worth of the national product. If, on the other hand, he elects to spend his £26 upon extra house accommodation, that requires the allocation of national resources to him here and now, worth not £26, but some £500. Thus reappears the now familiar argument about the special onerousness of requirements involving capital outlay in present circumstances. By the Rent Restriction cum Subsidy system we are compelling the individual to enjoy a larger share of the national cake in the form most inconvenient from the point of view of his fellow-citizens, for if an extra £500 has to be spent on him, the others have to go without that amount.

It may be that it is not practical politics to-day to propose a change in the Restriction cum Subsidy

system. If that is so, it only illustrates the evil effects of a lack of proper respect by informed public opinion, over a number of years, for the price mechanism. If people had been alive to those virtues they would have been pressing hard for some time now to get rid of the Rent Restriction system which so infringes sound economic principle, and they would have been particularly anxious to see that deeper inroads into the principle were not made by an enlargement of subsidies when the war was over, just at a time when, owing to our strained circumstances, every economy—and that means the strictest possible application of economic principle—would be especially needed.

On the practical proposition of terminating the system, it might be objected that it would involve a hardship on those dwelling in rent-restricted houses, on account of their expectation of a continuation of the restriction, and a quite unwarranted windfall profit to the landlords. This could be met by the offer of an unconditional reimbursement over a period of, say, ten years of the difference between the restricted rent and the economic rent to those now living in restricted houses, in cases where rents were raised in consequence of the abolition of restriction, and at the same time taxing the landlords by an equivalent amount. At the end of ten years some readjustment of wages and taxes could be made, so as to avoid any transfer of income from the poor to the rich that the abolition of the old system might entail. By this plan a man living in accommodation worth 20s. a week, whose rent had previously been restricted to 10s. a week, would find that he now had to pay 20s. in rent but received 10s. back by reimbursement.

If he remained in the same accommodation his position would be the same as before. But if he chose to move into accommodation only worth 10s. a week, he would get it in effect rent free. For he would pay 10s. in rent and get 10s. back by way of reimbursement, the essence of the scheme being that that 10s. would be paid to him whether he continued to live in his previous accommodation or not. That might seem shocking to those incapable of clear thinking. "What, let a man live rent free in these difficult times?" But why is it worse that a man should live rent free in accommodation worth 10s. a week than that he should live for 10s. in accommodation worth 20s.? It is not worse; it is better. The money charge upon the rest of the community is no greater, but the man by choosing the more economical accommodation is benefiting the rest of the community by releasing the larger accommodation for their use. The present system bribes him, so to speak, to be extravagant in the use of accommodation; the system I propose would leave him under the ordinary incentives to be economical. It is quite possible that if all the accommodation unnecessarily occupied by persons enjoying the benefits of rent restriction were released for use by others, much of the present housing shortage would disappear without that vast absorption of resources in the building effort which is causing us so much difficulty.[1]

The programme suggested, then, is to put an end to the present inflationary pressure by a large-scale reduction of capital outlay and exhaustive government expenditure and, when that has been done, to restore

[1] I owe appreciation of the relevance of rent restriction to our present difficulties to Professor Robbins.

the working of the price mechanism over as wide a field as possible

There is one important sphere in which I do not suggest a revival of the price mechanism in the old form. This is the rate of interest. In Chapter II I discussed the most fundamental parts of Lord Keynes's doctrines in their relation to the present situation. His doctrines regarding the management of the rate of interest, although not so urgently relevant to the problems of the day, have some relevance, and, unlike his other doctrines, have been put into practice by the Government. It was certainly of the essence of Lord Keynes's view, as defined in his *General Theory of Employment Interest and Money*, that the price mechanism as it worked in the capital market failed in that market to have those salutary effects which it had in other fields. His general doctrine was that in mature countries the mechanism did not of its own and without interference secure as low a rate of interest as was required for the healthy functioning of the economy. That general doctrine does not apply to the immediate circumstances of the day in Britain. On the contrary, I think it would be a fair interpretation to say that he would hold that in circumstances such as the present the undoctored functioning of the capital market would not secure us a high enough rate of interest to prevent inflationary pressure, and that, in consequence, if it was desired to prevent inflationary pressure, the Government would have to curb capital outlay by more direct methods of check than that provided by a high rate of interest. He would therefore have argued that the working of the price mechanism would not allow us to dispense with direct

Government control over capital outlay. To that doctrine I assent.

Apart from the question of the rate of interest as a regulator of capital outlay, it is imperatively necessary for us to have a low rate, owing to the large size of the national debt. This is an over-riding argument. There is a further argument. If we accept Lord Keynes's diagnosis that in the long run our economy needs a low rate of interest, there may be a danger in allowing it to rise now. For once it had risen, it would not be easy to reduce it again. And if, however much it rose, it would still be necessary to maintain direct controls over capital outlay, this takes away the argument for letting it rise. If we must have these controls in any case, then why not also enjoy the very great advantages, from the point of view of the Exchequer and the taxpayer, that a low rate of interest affords? Indeed it may be argued that in present circumstances quite a high rate of interest would exert but a small curbing influence on the volume of capital outlay, so that even if we allowed a high rate of interest, with all its concurrent disadvantages, the pressure of direct controls could be but little relaxed.

In referring to controls over capital outlay, I am not thinking of material-allocations or import-programming, those most vexatious and inefficient types of control, but of specific direct controls by building licences, etc. In fact at present the greater part of capital outlay is governed by direct political decisions on the part of the Government—in the sphere of housing, public utilities, coal-mining and public works whether by the central or local authorities. I have suggested that it

is most important to allocate a substantial part of the total amount of resources in the country available for capital outlay to refilling the industrial pipe lines and to covering minor extensions and reconstructions in the general run of industry. These should be allowed without interference or control. Larger plans for reconstruction in the industries outside the purview of the Government could be held in check by building licences.

The policy of a low rate of interest raises the question of the technique for securing it. About this there appears to me to be much misconception. Keynesian technique has been adopted. In order to keep interest rates down, the authorities have flooded the capital markets with money and short-term paper. References to inflation (or to inflationary pressure) often have this flooding in mind. The reader will perceive that this has nothing whatever to do with what in these pages I have called "inflationary pressure." I do not regard this flood of liquidity as having any immediate bearing, if any bearing at all, on the problem of inflation.

The aggregation of the past savings of our people is now held in two forms, ownership of all the physical assets in the country and government debt. To secure a low rate of interest the authorities act upon the latter, namely by altering the proportion between the short-dated and the longer-dated securities. By enlarging the proportion of shorter-dated assets they enhance the value of the longer-dated assets and thus reduce the interest yield that they bear. If there is a tendency to be discontented with the low interest on the longer-dated assets, the authorities counteract the effect

that such a tendency would have upon their value by reducing the proportion of them in the market. It may be that this elegant mechanism is now breaking down (August, 1947). The crisis induced by the inflationary pressure in the sense in which I have used those words, namely an excessive capital outlay, a pressure which is now being intensified by the running out of foreign credits, is only too likely to upset a delicate device of this sort. Lord Keynes cannot be supposed to have thought that its use would necessarily be effective in a major inflationary crisis of the kind through which we are now living. It will be a thousand pities if the Keynesian mechanism for keeping down interest rates is broken up by our capital outlay policy; if this happens, it will be another count against that policy.

Some hold that the great volume of liquid assets that has come into existence adds to the inflationary pressure. It is true that if the crisis developed to a point of complete break-down of confidence, there might be a stampede from the liquid assets into goods. But we have not reached that phase yet. The suggestion is that savings held in the form of money or short-dated assets are more likely to be transferred to the purchase of consumable goods than if they were safely tucked away in longer-dated assets. But is there anything in this? The individuals and institutions which hold the bank balances or short-dated assets do so because they think it unwise to hold longer-dated assets at present prices—and if the crisis develops they may, alas, be proved right. They are all at liberty to hold the longer dated assets if they wish. The argument which I am contesting is that the

authorities by bringing so much liquidity into existence have put people into a state of mind in which they will readily employ their savings for the purchase of consumer goods. But the question that ought to be asked is—does the low rate of interest make people inclined to abandon their savings for the purchase of consumer goods? If people are disposed to save less or to spend their capital because the rate of interest is so low, then the low rate of interest inflames the inflationary pressure. But that argument would hold whether the low rate of interest was due to the operation of the authorities in increasing the volume of liquid assets, or whether it came about, so to speak, on its own. The large volume of liquid assets outstanding is neither here nor there. They are simply the mechanism by which the low rate of interest has been arrived at. Any individual or institution holding these assets is perfectly free to move into longer-dated securities. It is only the disgust with the interest there obtainable that might lead him to move into the purchase of consumer goods. And that brings us back to the same point, namely that if in the existing state of affairs there is a tendency for people to save less or to expend old savings, that is due to the low rate of interest and has nothing to do with the large volume of liquid assets, which is merely the mechanism by which that low rate has been brought about. If people, including firms and institutions, became disgusted with the liquid assets and were prepared to hold longer-dated assets at the rate of interest thought proper by the authorities, there would be no obstacle to their doing so; the authorities would gladly alter the existing proportion between liquid assets and longer-dated assets and provide the com-

munity with that larger volume of longer-dated assets that it desired to hold.

I lay some stress on the foregoing argument because those who rightly hold that inflationary pressure is at the root of our evils will lead us off on a totally wrong track if they suggest that the inflationary pressure has any important connection with the large volume of liquid assets outstanding. There is no hope of getting our position right by financial jugglery in the capital markets. Suggestions to that effect will merely distract our attention from the root causes of the trouble and waste precious time. Something much more drastic is required. That is a complete change in the deployment of our resources of man-power and materials, a great reduction in the amount of resources devoted to physical capital extensions.

With this reservation in regard to the management of the rate of interest, and reserving also the question of basic foods in short world supply, I suggest that with the aid of a ruthless pruning of capital programmes we might get back to a freely functioning price mechanism in the comparatively near future.

Chapter IV

OUR INTERNATIONAL POSITION

The well-being of this country depends primarily on her ability to trade abroad and on the world economic situation. The over-riding importance of her foreign trade for Britain was well recognised during the war by those concerned with planning the post-war world. It was a commonplace at that time that the international plans were of far greater moment for our post-war standard of living than purely domestic arrangements for the reorganisation of industry, social services and so forth. Happily the Americans were prepared to look at these problems in a way that suited us, although naturally there were certain differences of opinion. The great intellect of Lord Keynes was harnessed to the task of thinking out the problems and negotiating with the Americans. But he was not alone in these tasks. Other economists of eminence and the best brains of the permanent Civil Service made their contribution. The preparatory work was a notable example of individual initiative and successful committee work. Still more notable was the spirit on both sides in the further development of plans around the committee table in Washington. The general willingness to look at the problems objectively and lay aside narrow sectional interests forcibly struck all who partook in these discussions. It seemed to augur well for the future of international economic co-operation.

It must be admitted that what may be called the

middle-distance problem is a serious one for Britain. It is one thing to raise exports by 75 per cent. during the favourable conditions of the post-war sellers' market; it is another thing to retain this volume of trade when world depression comes. In reality this middle-distance problem is a more formidable one for Britain than the short-period problem. We ought now, in August, 1947, to have surmounted or almost surmounted our short-period foreign trade difficulties. We should have done so but for that muddled thinking and absence of proper planning, which I have already described. If the progress made in 1946 had not been interrupted and spoiled by the grandiose capital projects that were allowed to swell up in 1947, we should probably now feel that we were in fair water so far as the short-period problem was concerned.

It must be admitted that in a confused sort of way some of the plans I have criticised are in part designed to help us in the middle-distance period. It could be argued that a reconstruction of the basic industries and services would render Britain a more effective competitor in the international market. Even from this point of view we have put the wrong things first. We have put in the forefront the expensive items of reconstruction which make but a gradual and indirect contribution to our competitive power, at the expense of the modernisation of those industries which produce exportable goods. The latter could be re-equipped with their modern tools at a small cost by comparison with the reconstruction of the basic industries. They also need a reliable and steady supply of materials and components, which so far has been denied them and will continue to be denied

them so long as we proceed with the large basic schemes. In fact the pressure caused by the " big programmes " has done great injury to our exporting prospects.

In the first place, by preventing our seizing on the present opportunity of getting into the full range of export markets that we shall undoubtedly require, it has seriously prejudiced our chance of ever getting into them. Our motto towards the export trade should have been " Strike while the iron is hot."

Secondly it has greatly weakened the authority of Britain in securing acceptance for the views that suit her as regards longer-range international plans. How can a nation which is not pulling her own weight and is in a mendicant position play an equal or proportional part in shaping decisions alongside the Americans, to whom all now look? If our foreign trade position were sound, certain difficulties on the home front would not have prevented nations looking to us, with all our historic traditions, for guidance, and from rating that guidance at an almost equal level with that of the United States.

Furthermore, so long as we are in a position of insolvency and on the verge of liquidation, the coming into operation of a real international system is inevitably postponed. An international system in the true sense cannot consist of the United States handing out funds to all and sundry. Britain is needed, along with the United States, to make the nucleus of an international system in the true sense. We want the various plans, sketched out in the war period, to come into full working operation as soon as possible. The longer this is deferred, the longer the so-called transition period is prolonged, the less chance

is there that these plans will ever be realised. Nations will dig into their autarkic positions and make such excuses as the "world dollar shortage" for refusing to stir out of them. It needs British as well as American drive and planning and forethought to give the nations the necessary confidence to enter bravely upon the new inheritance by renouncing their restrictionism and barriers to commence.

The objectives of the plans for international economic co-operation may be summarised as follows:

(1) Concerted measures were to be taken along various lines to prevent the recurrence of a world slump such as that of 1929–31. This is of the utmost importance for Britain, because our export trade on which we depend is now in a much more exposed condition than it was in 1929–31. Since that date the various nations have perfected numerous devices for closing down on their imports, which they will not hesitate to use if a world slump should recur, unless strictly committed not to do so by an international economic plan that enforces a good-neighbour policy. In the absence of such a plan, fully and fairly operated, Britain will be much more hard hit by another slump than she ever was in 1931.

(2) A second objective was to secure a greater volume and freer flow of international trade than we had before the war. While all should gain from this, the gain to Britain will be the greatest of all, because of her peculiar dependence on the importation of vital necessities.

(3) A remarkable feature of the agreements reached was the recognition of the need for flexibility and adjustability. This is very relevant in the present

conditions. We are naturally somewhat nervous about our power to maintain that 75 per cent. increase in the volume of our exports (which through our own fault we have failed so far even to achieve) that is so vital to us. We look with alarm upon the increasing efficiency of American production. Shall we ever succeed in competing?

The arrangements agreed upon sought to take into account precisely this possibility. While naturally for many reasons we should like our forward movement in efficiency to be at least equal to that in America, in order that the standard of living of our people may rise progressively, the international arrangements are so designed that we should not be left high and dry should we fail to achieve this progress. If our efficiency fails to increase *pari passu*, we shall not be inevitably squeezed out of our markets. This very point has been argued with the Americans. Their tendency was to say, " we want you British to be efficient; we want you to be a strong power; we do not wish to give you an escape clause which you can take advantage of to slack." But we did not admit this point. It was necessary to provide for the eventuality that our efficiency might not keep pace, in fact for our freedom to be laggard if we wished. This eventuality is met by the provision for flexibility in foreign exchange rates, as well as in a more general way, by the famous " Scarce Currency Clause " of the Bretton Woods Agreement. Thus, although we may deem it a bad thing for our nation to lag behind in the race, yet we need not be too fearful, since the arrangements are designed to ensure that we are not by any commitments prevented from exporting enough to buy our

needed imports. Interchange will proceed, although naturally on less favourable terms to us than it would if we were producing more per head. Thus, although we must be strenuous in our efforts to meet this middle-distance problem by raising output per man to the highest possible level, there is no need to take too pessimistic a view about our middle-distance future even if we fail to do so. These points were thought out by the war-time negotiators and our position is secure, always provided that we do not so muddle our short-term problem that the long-range plans for co-operation never come into active working. It was further implied by the spirit of the negotiations that if the flexibilities agreed upon were not sufficient to achieve the purpose of allowing trade to continue to flow, and the advantages of the international division of labour to be realised, it would always be possible and consistent with the whole scheme to introduce further flexibilities.

I cannot refrain from mentioning that there is one point which may not have been fully met by the thought that was given to future problems. The British were insistent that we should not be denied the right to have adjustments made in our favour on the ground of our internal social or economic policy.[1] Under this head what the negotiators had in mind were such matters as a domestic policy for social services or an expansionist policy to maintain full employment. We must not be in the position of being told, when applying, for instance, for a foreign exchange adjustment, that our adverse balance of trade was our

[1] Cf. The Final Act of Bretton Woods. Cmd. 6546, 1944, Article IV, Section 5 (*f*).

own fault because we had been pursuing an expansionist domestic policy, and that we must put our balance of trade right by revising that policy. It was most clearly understood that such an objection could not be allowed. Each country must be allowed to go forward as far as it thought right and appropriate with expansionist domestic measures to maintain full employment at home, and must not have these held against it in any sense when claiming some adjustment in the international field.

The point that I do not believe to have been fully envisaged was that a nation might carry out capital outlay programmes far in excess of the need to maintain full employment and of the savings of its own people. Take the present position. Supposing that the international plans were in full working order, would this country have the right, having embarked upon capital programmes far beyond its means and far beyond what is needed to maintain full employment, and having thereby created a large adverse balance of trade, to claim that some international adjustment must be made to allow this adverse balance of trade to continue? And similarly with the other countries that may be going ahead too quickly? Have all the countries the right to spend just as much as they please in improving their own equipment and then present the bill to the International Fund or the International Bank? I do not think that the "world dollar shortage" in the form in which it now exists was fully envisaged by the international plans, not even by the "Scarce Currency Clause." It was supposed that countries would more or less confine themselves to such capital outlay as they could afford at a level of full employ-

ment and not indulge, before the event and without leave, in capital projects that could not be financed at home however full the employment might be. The Americans, it is true, did have some anxieties about the plans leading to an all round "hand-out" by them, but at the time those anxieties were regarded as unenlightened and unfair. This is certainly a point that will need further consideration.

The means of securing the above-stated objectives were certain plans in the fields of currency and foreign exchange, international investment, commercial policy and primary product price and output policy. The third of these matters is under discussion at Geneva now. The fourth, which is very important, has not advanced beyond the stage of a preliminary ventilation of ideas.

In regard to the third heading, it seems that Britain has made a mistake of the first order of importance both in the discussion which took place in London last November and now (so far as my information goes) at Geneva, a mistake which by itself might go far to wreck the whole edifice of interconnected plans. It is surely an instance of the jaded and sick psychological condition of our people that this point, so momentous for Britain's future, has barely received any discussion in this country at all. The point is as follows:

In the sphere of currency it was agreed at Bretton Woods that a country should have the right to depreciate its foreign exchange rate, if the International Monetary Fund agreed that it was in fundamental disequilibrium. There is a further right to make a 10 per cent. reduction unilaterally, which Britain would presumably never use, save on some sudden

emergency when there was not time to consult the Fund and when there was no doubt that the Fund would give it sanction. This limitation of sovereignty, if one may so call it, is a great advantage to Britain. It is the kind of limitation of sovereignty which does nothing to impair the dignity and self-determination of an independent state, but which may yet be a contribution to more orderly international co-operation, a first step to that kind of world government which one could accept without any sense that one was putting one's own nation in chains.

It is of advantage to Britain because we deem that Britain may require precisely this right to have an effective exchange-depreciation. An exchange-depreciation can only be effective in restoring equilibrium if other nations are not allowed to follow suit. If every nation was at full liberty to depreciate its exchange, whenever it chose, we may be sure that the British depreciation would be followed by widespread depreciation all round and thereby fail to be of benefit to us. We had a good illustration of this in the 'thirties. We should not wish to depreciate ourselves unless we had good reason. And if we had good reason we need not fear that the International Monetary Fund would deny us the right.

It appears to be the view, widely endorsed in London and at Geneva, that if a nation has a serious adverse balance of trade, it should be free to impose quantitative restrictions on its imports. In this matter the same principle should apply. It is of vital importance to Britain that these restrictions should not be allowed except when the International Trade Organisation certifies that there is a genuine adverse balance. All

the arguments are precisely the same as in the case of the International Monetary Fund. If all the nations are free to impose quantitative restrictions, whenever they deem that they have an adverse balance of trade—and there are all sorts of means of juggling with the calculations—the British exporting position will be most seriously jeopardised. There is a further loophole in the draft Charter. It is proposed that a nation should have the right, of its own free will, to impose quantitative restrictions, when it deems its reserve insufficient. But what nation ever admits that its reserve is sufficient? Allowing the right to impose quantitative restrictions without approval by the Trade Organisation may well make nonsense, not only of the whole plan for an International Trade Organisation, but of the International Monetary Fund also. The prohibition of unneighbourly action under the International Monetary Fund may be got round by unneighbourly action of equally damaging character in the sphere of commercial policy.

Despite the fact that the arguments in favour of making the Trade Organisation the arbiter are paramount from the point of view of British interests, Britain has stood on the other side and insisted on the right of unilateral action. It might no doubt have been difficult to get other nations to agree to arbitration by the Trade Organisation, but Britain should have thrown all her weight along with that of the Americans on the side of persuading them to do so. If the United States and Britain had stood together, and some other Powers would have agreed with them, they should have been able to carry the point. This British action has been a most devastating blow at all these plans and may have the gravest repercussions on her own future.

Meanwhile we continue in the doldrums of transition. We were compelled under the terms of the American Loan Agreement to take our first step towards international collaboration by making sterling convertible on July 15th.

On August 20th, having used nearly nine-tenths of the American money, we violated the most important condition of the Loan by making sterling inconvertible again. Whatever the arguments about whether this was really necessary may be, it is quite certain that the knowledge that Britain was obliged to make sterling convertible on July 15th was a great godsend to us. It probably saved the nation hundreds of millions of pounds. We should be very grateful to the Americans for having put that clause into the Loan Agreement, although flat repudiation is not a very handsome way of showing our gratitude. Various nations think that we owe them sums amounting in all to £3,500,000,000. They have continually pressed us to release as large a quantity of this as possible at as early a date as possible. Since anything that was released had to be convertible under the terms of the Loan Agreement, we could argue that it was beyond our powers to make more than moderate releases. But suppose that we had not been under the obligation of convertibility. These nations could have argued that they were quite willing to take sterling which should have command over British goods only. They would have urged their own dire needs and alleged that we had an honourable obligation to meet them—an allegation which we ought by no means to accept unconditionally. None the less, if sterling had not been due to become convertible, we should almost inevitably have been driven

to go further to meet their wishes. " Oh, but," some say, " it would be quite all right if the released sterling were not convertible, because we should then pay in British goods." But how does that help us? British labour would then have to be locked up in the production of these goods which would leave the country gratis and we should get nothing in return. Their production would absorb British labour and materials. It would entail for us another large turn in the screw of austerity. It is part and parcel of the fallacious mercantilism that is abroad, that it is supposed to be better for us to make a payment which involves us in supplying British goods to the market which we pay, than to make a payment in convertible currency which involves us in supplying British goods to the markets where we can most conveniently sell them. But in this case the obligation to make sterling convertible has greatly reduced the amount of payments that we have agreed to make in all. Who can deny that it is better for us to export fewer British goods gratis in all at this juncture wherever they go? It may well be that the obligation to make sterling convertible saved us hundreds of millions of pounds' worth of gratis exports, hundreds of millions of pounds' worth of British labour and material being locked up in making them, and in consequence that this obligation has saved us from cuts in our food supply worth hundreds of millions of pounds.

Now that sterling has become inconvertible again, it is to be hoped that we shall not become even more generous in settling old claims. Although we are no longer drawing on the American credit, we are not yet solvent. There is still some unexhausted Canadian credit. We are reported to have made

arrangements for obtaining credit from Australia, and we shall no doubt have to scrounge elsewhere in a humiliating manner before we become once again a self-supporting nation that can hold its head high. Therefore it is necessary for us to be very strict with the war-time creditors. No further releases should be made, and having had experience between July 15th and August 20th of the ineffectiveness of our foreign exchange control, we should tighten it up.

Meanwhile, we should make it our first objective to restore the convertibility of sterling at the earliest possible date. This is an obligation of honour. It must not be forgotten that we have not only had the benefit of the American credit, but also the much larger sums involved in Lease-Lend, remitted by Congress on the strict understanding that we should maintain convertibility. We have failed to do so, but we must try again. This honourable obligation cannot just be laughed off. If we try to do that, Britain's reputation of integrity, on which so much foreign business and in consequence our standard of living in these islands depend, will be gone for ever.

But for our own good also we should make the restoration of convertibility our first objective. This can be made an acid test by which the Government can prevent itself from continuing to flounder among unnecessary and extravagant schemes. There is a flimsy idea in the air that we, in some mysterious way, gain by having sterling inconvertible. That we gain breathing-space cannot, of course, be denied. Having failed to make adequate arrangements on July 15th for preventing the various nations, who had their £3,500,000,000 chalked up against us, cashing in,

we were naturally in an exposed position. We can redeem ourselves from that position now by making the necessary arrangements. With our immense network of controls at home, so many of them vexatious, it is surely absurd to contend that we are unable to prevent existing foreign holders of sterling assets from converting them, while making sterling on current account convertible. There was nothing in the American Loan Agreement, and there is nothing in the objectives which make sterling convertibility desirable, to preclude us from taking the line that the sterling held by pre-convertibility foreign holders remains inconvertible.

Beyond giving us this breathing-space in which to perfect the controls over pre-convertibility holders, what advantages can be alleged in favour of inconvertibility? It still remains true that in order to be solvent we must export a sufficient quantity of goods to pay for our imports. By further scrounging we may postpone that evil day for a little. None the less, the day must come. The longer it is deferred, the slower will the Government be to abandon those capital projects which are making solvency impossible, and the slower the Government is, the greater the confusion that will be caused when it finally has to abandon them.

There is, however, one material point that must be considered. It is an intolerable situation that we should have to give good convertible sterling for what we import, if we only receive inconvertible currencies for what we export. It is not likely that we have so far suffered any substantial loss from this inequality of position, for we do not appear to have exported to

the soft-currency area as a whole more than enough to pay for our imports from that area. None the less, as our export drive gathers momentum, we may well find surpluses arising in our favour in the soft-currency areas. If the old sterling balances are properly blocked, these surpluses will, it is true, not be available for their reduction, but at the same time, if they are inconvertible, our export effort will be *pro tanto* wasted.

We have a right to demand reciprocity in this matter. We should make it a condition in re-establishing convertibility that if a surplus of British exports arises in a nation which is a member of the International Monetary Fund, that nation should be obliged to use its resources in the Fund to honour payments for such a surplus. The Americans should be willing to assist us in this, since it would be a further step on the road of international reconstruction.

The distinction between hard and soft currencies could then be abolished as between members of the International Monetary Fund. This would be of great assistance to us, since it would enable our exporters to sell in the markets most convenient to them, and enable us to buy our imports from the areas where what we need is available and can be had most cheaply.

Before August 20th we are said to have sought a revision of the condition that we shall not use discrimination in our import restrictions. This was of very doubtful wisdom. Where we can obtain an import at a lower price from any source, we are free to buy from that source without the charge of discrimination. The advantages of discrimination to us in existing circumstances have not been clearly explained. The advantages to us of the outlawry

of discrimination in future are of the utmost importance. It would therefore be very unwise of us to seek to make a breach in the general principle that discrimination should as far as possible be outlawed in commercial dealings.

In the short period our international position would not have been unfavourable, had we not embarked on our overblown programme of capital outlay. This error should be rectified with great speed. Let us liquidate work on construction as quickly as we liquidated work on munitions after VE and VJ. In the middle distance we have a serious problem, but we should be greatly helped in this if the international institutions and arrangements, devised by Keynes and others, are only allowed to come into effective working operation. In the longer distance our prospects should be bright, provided that we keep ahead of some of our neighbours in inventiveness, so as to be able to offer them something they need in return for food and materials, when they have themselves become adept in the routine manufacturing processes. The fact that our imports consist of vital necessities, which is so embarrassing now, should actually prove a source of strength later. As our own wealth and the wealth of the world grows, our need for basic foodstuffs and raw materials will not grow in proportion. The capacity of the human stomach is limited, and greater wealth beyond a certain point does not mean using ever more and more basic material, but working up a certain quantity of basic material into ever more complex, highly finished and luxurious forms. As we get richer we cook our raw materials better, just as we cook our basic foods better. But this

puts us in a favourable position in international trade. In an expanding world our need will be for a quantum of imports that does not expand so much. In these circumstances we can flourish even although, as the years proceed, we only obtain a declining proportion of the world's export markets. This is a basically strong position in which to be.

Chapter V

CONCLUSIONS

My main conclusion is that we have no need to be downhearted. A clear way out of our difficulties can be seen. The principal item of the policy suggested is a drastic reduction of our capital programmes. This is required by the economic principles which I have endeavoured to enunciate in these pages. Economic principles are not altogether outside the realm of controversy, and it is right therefore that we should remind ourselves that the capital reductions are also required by the principles of ordinary honesty. It is not honest to give handsome orders for articles, which one knows that one cannot pay for out of one's own pocket. By a confusion of doctrine and owing to the complex situation with which we have been confronted, the Government of Britain has for a time got adrift from those ordinary book-keeping checks which guide an upright man in the conduct of his business. They have supposed that anything could be done, if only it seemed desirable, regardless of the means. We must get away from all this. We must get back to strict book-keeping, and other things will be added unto us.

I am confident that once this is done the whole working of our economy will fall into good order much more quickly than many people think. Huge transitions have been made both at the beginning and end of wars without all the frictions from which we are now suffering.

Although we are perfectly entitled to be of good cheer and to foresee an early end to the worst of the austerities, we must not be dilatory. There is the utmost need for quick action from both the international and the domestic points of view.

On the international side there will be a large loss in our political position if we continue to flounder in confusion. There will also be a loss of business and too long a postponement in the acquisition of that new business which is so necessary to us. And there is danger that there will be a complete degringolade of that international economic system, of which we were at such pains to lay the foundations while the war was still proceeding, and which is so vital to our longer-distant welfare.

On the domestic side great dangers threaten if quick action is not taken. A long protracted continuance of our difficulties may well lead to a permanent decline in the vitality and enterprise of our people. The more immediately practical point is the danger of open inflation. Tiresome and hampering though the inflationary pressure has been, we have managed to control it and prevent large-scale open inflation. It is difficult to give a monetary figure for the force of this pressure; it would have to be assessed by estimating the amount of supernormal profit accruing plus the amount of exhaustion of working capital. But when we have to balance our external account it is quite certain that this pressure will be increased to the extent of some £400 million or £500 million p.a. If the big programmes are not reduced, this pressure will exert its full force, and we cannot be sure that it will not disrupt the whole economy.

More goods will be siphoned off into the export markets while our imports will be cut, but purchasing power will remain unchanged. Far more intensive controls will be required, if the vicious circle of rising prices and wages is to be prevented. It is by no means certain that the controls will be strong enough to stand the strain. They may break under it. There may be a mushroom growth of black-market activity. Industry will be more than ever starved of its stock-in-trade and maintenance. To add to all these troubles there is the danger of some heavy unemployment arising owing to the lack of materials. The consequent decline in production would grievously aggravate our troubles.

To avoid these evils the cuts in capital programmes (and in Government "exhaustive" expenditure) should be carried out at once. I have tentatively suggested the figure of £500 million as a target. The official statisticians with access to all information may provide the Government with a more accurate figure. It is hardly likely to be less than £500 million. But we need not take alarm at the prospect of this change-over. We have had much larger change-overs than this in the last ten years. Instead of our difficulties seeming to increase, things will get easier; the economy will bound forward with a heartening resiliency.

Doubts have been expressed about the mobility of labour, but here again war experience has provided precedents which are not discouraging. There are two sets of circumstances in which labour is particularly immobile, but we should not in the present situation be influenced by our experience in either of those cases. One case is where there is very widespread

unemployment in the system, as before the war, and men will not move to a new place, because they expect, not without reason, that they will be thrown out of work again soon after they arrive. The other case is the present one where the demand for labour is much too great, and labour seems immobile because no one's job ever comes to an end. People have no motive for moving from a good job, in which they have been safely installed for a considerable period, in order to go to another job, even although the nation needs them much more in the latter. The individual cannot be expected to act in an irrational way from his own point of view in order to meet the requirements of the central planner.

The pitiful thing is that our economy was getting so near to equilibrium in the autumn of 1946. If only we had continued on the same road, we should be feeling quite comfortable now. But then the big Government programmes began to gather momentum and set all amiss.

The lesson evidently has not yet (August) been learned, for on August 6th Mr. Attlee was still giving first priority to the "reconstruction of our basic industries and services" which, after the housing programme, is the main cause of our troubles.

As soon as the inflationary pressure has been eliminated, we should reintroduce the price mechanism. There should be a direct control over the major forms of fixed capital outlay, whether through government policy decisions in the spheres in which it is responsible for expansion, or through building licences. We should seek to terminate all other controls quickly and particularly that most hampering form of control, material-

allocation. Incidentally we should in no wise agree with certain industrial spokesmen who suggest taking over the material-allocation from the Government and doing it themselves. The condition for the relaxation of the government control should be that the industry will allow the price mechanism to work freely. Another very vexatious and inefficient form of control is import-programming which should be terminated as quickly as possible.

On the consumer side all forms of rationing and quantitative allocation should also be terminated, save in the case of essential foods in which an acute world shortage remains. If in the new situation we have to accept a somewhat lower standard of living than we had in 1939, then it is most important that each individual should have the liberty to adjust himself to the new situation in the way that hurts him least. Let prices of scarce commodities rise. If inflationary pressure is terminated there will be no danger of a general rise of prices. And we must abandon the foolish idea that it helps our balance of trade to cut imports as such. Only a cut in the capital programme can make a substantial improvement in the balance of trade. Import cuts are particularly undesirable, because on the whole imports are especially important, whether materials for industry or food. When people are left free to economise in their consumption in their own way, it is unlikely that those economies will be mainly directed against imported goods. There is no harm in that.

Meanwhile the cheap money policy in its broad outline should be continued. It is most important that the Government should not lose courage and let

the existing crisis of confidence gather momentum.

On the foreign side our first objective should be to re-establish the convertibility of sterling. This should not be difficult if we carry out the domestic policy which has been outlined, and at the same time take the necessary steps to block pre-convertibility sterling assets held by foreigners. We must also seek American assistance in securing that any British export surpluses arising in countries who are members of the International Monetary Fund shall be paid for in sterling through the mechanism of the Fund.

The impending convertibility of sterling was a great bulwark before July 15th and may well have saved the country hundreds of millions of pounds.

It is unwise to seek to introduce the principle of discrimination in our commercial policy, for, in the long run, we shall suffer grievously if it is applied against us. Do not let us ourselves be responsible for a breach in the principle, which will be our sheet-anchor in future. At the same time it is most important to keep a careful watch on capital programmes in the dependent Empire. These, like our own capital programmes, tend directly to make us insolvent on international account and thus damage the food supply to our own people. We should be prepared to go forward with these programmes at an early date, as soon as opportunity offers.

At the same time we should reverse our long-range economic policy and, instead of refusing to renounce our sovereign liberty as against the International Trade Organisation to impose quantitative restrictions on imports, we should join with the Americans in seeking to secure such a renunciation by all member nations.

Here is a practical programme. I have suggested definite things which should be done. They will involve a large-scale reshuffle and may be accompanied by certain awkwardnesses. But if we do them we shall quickly see the dawn of better times. Having put this clearly defined and businesslike programme into operation we should be able to go about our tasks this winter in a spirit of cheerfulness and with a new-born resolution.

THE PRACTICAL CONSEQUENCES OF NATIONALISING THE BANK OF ENGLAND[1]

Should a country's central bank be a government agency? This would be a fine question for a debate on principles in any gathering from a school debating society to the Brains Trust or House of Commons, nay to the pages of a severe philosophical treatise. T. H. Green, had he only been an economist, could have found within the range of issues involved most of the instances he needed to illustrate his fundamental propositions. In what follows, however, I propose to steer clear of questions of principle, and to confine myself to the much narrower, albeit in the present case perhaps not less important, topic of what will be the practical and operative consequences of nationalising the Bank of England in 1946. I can by no means share the view which appears to be held by the majority of persons of middling information that the consequences will be nil, in the sense that all will proceed as before the Act—*plus ça change, plus c'est la même chose.*

From the beginning the Bank of England, like similar institutions which have since been created in other countries, has stood in a special relation to the public. The fact that it was the government's sole banker, managed the National Debt, was for long the only joint stock company to have the right of note issue, in due course became the banker for all other important banks in the country and in 1833 acquired

[1] Reprinted from the *Political Quarterly*, July 1946.

the privilege of having the status of legal tender for its notes, gave it a unique position. The designation of "central bank" indicates that there is only one organ discharging certain functions. But the nature of its "special relation" is not exhaustively characterised by saying that it has a monopoly of something or other. There is the further point that the things in question have a supremely important bearing on the welfare of the public at large. If there could be any doubt about this, the matter was clinched by the events of 1797. During the eighteenth century many banks got into a position in which they were unable to honour their notes; then they were allowed and indeed compelled to close their doors. In 1797 the Bank of England got into precisely this position, but it was not allowed to close its doors. On the contrary it was directed not to give cash for its notes. In effect, rather than let the Bank of England go bankrupt it seemed better to Parliament that Britain should abandon "the gold standard." It is true that, by a fine example of wishful thinking, or, should we say, British hypocrisy, the authorities refused for some years to admit that we were not on the gold standard, although the Bank of England notes were then the sole medium of circulation and accepted at par in discharge of debts payable in sterling and yet were palpably at a varying discount against gold. Anyhow, it was obvious that the Bank, unlike other banks, was allowed and compelled to remain open although it could not honour its notes. And after the return to gold in 1821, it was clearly recognised that rather than let the Bank of England go bankrupt, we should be prepared to suspend the Charter which governed

its operations, as was done three times in the nineteenth century, and even in the last resort again abandon the gold standard, although we were not driven to this until 1919.

Bagehot, who did much to make the special position of the Bank properly understood, toyed with the idea that it would be a good thing to break up the monopoly and establish a number of independent banks to compete in discharging its functions. This would have carried the competitive principle to its logical conclusion; he thought that this might well be done with advantage, were it not for the *vis inertiæ* of an established system. He was probably wrong on that point. Save for brief interludes early in the nineteenth century, the United States managed to get along, not very successfully, without any central bank until 1914. Yet in the end, despite their individualism, they were driven to establish a monopoly. The story of the inauguration of the Federal Reserve System has its moral. The Republican Administration had prepared a blueprint for a central bank and taken the initial steps to introduce it, when it was defeated by the Democrats in the Presidential election of 1912. Hostility to banking monopoly was very strong in the United States, and the Democrats were bound by their principles to oppose monopoly in every form, and in particular to support separatist interests against any concentration of financial power in the east. Accordingly they put the blueprint into the waste paper basket. And yet logic and recent experience drove them to establish something very similar. Then, if ever, was an occasion for implementing Bagehot's dictum. There was no centralised system in existence.

The administration, strongly supported by public opinion, was as much opposed to concentration as any administration is ever likely to be. Actually it confined itself to preserving a façade of devolution by establishing twelve banks instead of one, but these twelve formed one system which was co-ordinated by the central Federal Reserve Board, appointed by the President of the United States. Even this mild concession to separatism may well have done harm in due course. The summer of 1930 was a world-historic time. Had it been possible then to prevent the world depression from deepening, everything that has happened since would have been quite different. The Federal Reserve Bank of New York, which under the guidance of Benjamin Strong had been carrying out a progressive policy of experimenting in the control of the trade cycle in the 'twenties, was willing to push to extremes a policy of "reflation." That was a chance for proving whether banking policy alone could cure a great depression. Perhaps it could have —who knows? Thus World War II might have been avoided. But the New York Bank was prevented from making the experiment by the other Federal Reserve Banks.

How has the Bank of England discharged its monopolistic responsibility? It is generally agreed that since the middle of the last century, if not for longer, it has not endeavoured to increase its shareholders' incomes by any policy recognised as inimical to the public good. To that extent it has behaved like a "public corporation." This is not, I think, a point at issue. But has its policy indeed been in the public interest? What have been its objectives and criteria?

Until 1931 its main objective, assigned to it by Parliament, was the preservation of the gold standard. More precisely, this meant that it had always to be able to redeem its notes in gold at their statutory value. It meant further that it had to be able to give cash to its depositors, which include all the great banks. It had to be able to pay them in its notes, and, since these were redeemable in gold, it had in effect to be able to pay them in gold. In so far as other banks had a sufficient reserve in Bank notes or on deposit at the Bank of England, anyone who had a balance at a British bank could get gold for it on demand. The Bank in fine had to remain solvent in gold. But there was no automatic rule for maintaining this solvency; wise management was required.

A famous attempt was made to reduce this management to rule of thumb by Peel's Bank Act of 1844. That Act imposed stringent regulations in regard to the note issue, and it was hoped that these would suffice to make the maintenance of the gold standard automatic. Peel told the Bank that, now that its note issue was so strictly regulated, in all its other operations it might seek profit like any other bank. But Peel's lesson had to be unlearnt by bitter experience, the moral of which was ably pointed by Bagehot. He argued that this objective of maintaining solvency in gold should be taken account of in all its operations, and not only in the regulation of its note issue. After some years Bagehot's teaching was accepted.

How far did the Bank in the nineteenth century recognise the duty of securing fairly stable conditions for trade, of preventing speculative booms and relieving depressions? This matter was much discussed and

some implicit recognition of the duty seems to have been given. It is difficult to give a precise answer, because there was really no clear line of demarcation between preserving the gold standard and maintaining stable trading conditions. In a commercial crisis the gold standard was necessarily in jeopardy. The duty of maintaining the gold standard meant something more than maintaining it by hook or by crook, by having the Bank Act suspended, by rushing to the Bank of France for a loan, etc. It meant maintaining it in an orderly, steady condition, without crisis or panic. And as this was impossible if commercial crises occurred, maintaining the gold standard and maintaining steady conditions for trade seemed to amount to one and the same thing.

In the discharge of this duty the Bank no doubt made mistakes from time to time; but it is not, I think, alleged that the Bank failed in any notable way, anyhow between 1866 and 1914, to keep abreast of the best opinion about what ought to be done; it is not suggested that the Treasury or a strong Public Corporation would have achieved a better record.

We must now approach the modern period. During a great war, the central bank (whether nationalised or not) has the primary duty of assisting the Government to finance the war with the least possible amount of inflation. Central banking policy becomes merged in Exchequer policy. That we financed the heavier burdens of World War II with less inflation than World War I is to be attributed to the general economic policy of the Government for mobilising resources rather than to any specific banking policy. That we financed the borrowing required for World War II

at a lower rate of interest is to be attributed to the rise into the ascendancy of the ideas of Lord Keynes. For the deflation which followed closely on World War I, in so far as this was due to deliberate policy at all and not a mere automatic aftermath, the Treasury and the Bank must share responsibility along with informed public opinion, which issued no warning and made no protest until after the event.

When we come to the return to gold in 1925, the shadow of blame begins to fall. In regard to the return itself, many independent persons must have felt sympathy with Mr. Bevin in his impassioned post-mortem recently delivered on the occasion of the repeal of the Trade Disputes Act of 1927. But the responsibility for it was widely diffused. Lord Keynes was almost a lone voice warning us against it. A few wise heads, like Lord Milner, murmured, and perhaps a few foolish heads too. But broadly the return to gold was approved by the general body of well-informed opinion.

In the period between 1925 and 1931 the gold standard was not managed quite in the old way. At this time the United States had a large margin of gold in excess of legal reserve requirements, and the Federal Reserve System took this opportunity to develop a policy of managing the dollar with sole regard to maintaining steady conditions for business. It was able to " manage " the currency precisely as if there had been no obligation of keeping it convertible into gold. We were not in this happy position, since our margin of gold reserve was narrow. None the less, in deference to the undercurrent of hostility to gold and opposition to deflation that was beginning to flow more strongly

after the return to gold, the Bank did not re-introduce gold standard principles in their full vigour. It had to walk on a tight rope, trying on the one hand to give us something like a managed currency, yet not having the reserve which made it safe, from the gold standard point of view, to do so. The fact that we were forced off the gold standard in 1931 was in part due to this policy of compromise and could be claimed by the Bank as evidence that it had not interpreted its obligation to safeguard that standard in an oppressive sense.

The events of 1931 give better grounds for grievance than those of 1925; they caused deep and justifiable resentment on the Labour side and probably made "nationalisation," once Labour should achieve power, inevitable. We do not know how the blame must be divided between the Bank and the Prime Minister. In the early part of 1931 there was still no solid public opinion in favour of our abandoning the gold standard voluntarily; and the Labour Government was ostensibly, and presumably in fact also, in favour of doing what was necessary within reason to maintain it. When the crisis grew, loans were obtained from the United States and France. In my judgment it is quite incredible that the American authorities, when approached for a second loan, should on their own initiative have suggested retrenchment in the distribution of unemployment benefits as a condition of the loan. It is possible that it was put to them by us that such a stipulation by them would be most helpful to us politically, in order to bring the majority of Labour Ministers to their senses. Even if the American authorities did make this stipulation on

their own initiative, our representatives could have rejected it outright. Every penny borrowed from France and the United States at that time was covered by gold in the Bank of England; we could have offered that gold as 100 per cent. security; alternatively we could have used the gold to save the gold standard—a reserve is only worth holding if it can be used on occasion of crisis—and thereby dispensed with the loans; alternatively we could at that point have given up the unequal struggle to maintain the gold standard. Thus American stipulations, if any, were quite irrelevant; but the rumour of them weighed heavily with public opinion at the time. Mr. Ramsay MacDonald's broadcast on August 25th was phrased in terms likely to strengthen the rumour. The idea that a retrenchment in unemployment benefits was necessary to save the gold standard, and thereby to save the country from ruin is the essence of what has been called "the bankers' ramp." It was a fatal error and a wrongful method of proceeding. It was a deep wrong too; these unemployed men and women were having a hard struggle. It was the kind of wrong that even in this wicked world brings nemesis in the end.

Of course the Bank of England may have been quite innocent in the matter and have expressed strong opposition to this mode of proceeding. Failing proof to the contrary, the British public will continue to have a shrewd suspicion that the Bank authorities, with the mentality they had in 1931, were not totally opposed to the way in which Mr. Ramsay MacDonald was handling that crisis.

The matter was made much worse by a wide change

in public opinion after 1931 on the question of retrenchment. If the reduction in the distribution of benefits was a bitter medicine which really had to be taken if the affairs of the nation were to be set in order, if the choice had really been between that or ruin, then good British common sense, including Labour common sense, would, after a time for reflection, have condoned a little sharp practice to get the medicine taken quickly. One may deceive a patient to save his life. But after 1931 more attention began to be paid to the views of economists, which had indeed been voiced before 1931, that so far from being good medicine it was positively harmful to restrict the purchasing power of the unemployed in the middle of a severe industrial depression. This view became official doctrine in the United States after the accession of Roosevelt. This fortified the opposition to the influence of the Bank and deepened its ground. Attention shifted from the "ramp" to the background of ideas which had made a ramp seem justifiable. It was not merely that those financial circles calmly acquiesced in taking their pittance from the unemployed, but that they were hopelessly wedded to obsolete economics. Therefore it was necessary to make an attack on their stronghold and dethrone them. Let the cobwebs be swept clean away. And hence the Bank of England, which, with its great traditions, admitted efficiency and awe-inspiring prestige, would probably have been rather low on the list for nationalisation by a socialising government in 1914, was at the top in 1945.

Meanwhile what happened after 1931? Hitherto when we had gone off the gold standard, the needs

of war finance dominated the scene. But now there was no war. What was to take the place of the objective of maintaining the gold standard, to govern the policy of the Bank?

The economic historian of the future will give the spring of 1932, when the Exchange Equalisation Fund was set up, as the date of the effective " nationalisation " of the Bank of England. He will do so at any rate if he writes with discretion. That was the time at which the main responsibilities of the Bank of England were transferred to the Government. For more than a century the Bank had been responsible for the British currency; its objective in the discharge of this responsibility had been, save in intervals of major wars, the maintenance of the gold standard. To achieve this objective it had to use discretion in carrying out operations in the money market. In the latest period the objective had become a little blurred, since it was under some pressure from public opinion to avoid deflation if possible. With the establishment of the Exchange Account, the restoration and maintenance of a gold standard ceased to be the primary objective of currency policy and certain other objectives took its place, while the Treasury assumed responsibility for the measures required to achieve them. Responsibility and authority were alike transferred, and the Bank, in this, its supreme function, was formally reduced to the status of a mere agent.

This great revolution was effected very quietly by Mr. Chamberlain, on behalf of a National Government of preponderantly Conservative character. The nemesis, if loss of responsibility and authority in what had hitherto been its prime sphere be deemed a nemesis,

had come very quickly, if unobtrusively and without dishonour. The avenging furies could sate themselves in the blood of their victim. But because the revolution was so silent, resentful feelings in regard to the Bank and all that it was supposed to stand for were not assuaged. Some may feel that the recent Act of Nationalisation does no more than give public and formal expression to the revolution of 1932, and is therefore meet and proper.

But the world has not stood still since 1932, and before passing judgment on the true effect of the recent Act it is necessary to examine more closely what has been happening in the meantime.

The question may be raised why the staid Mr. Chamberlain should have sponsored so radical a change in our financial system. The answer is given by the purposes of the Exchange Account. Put briefly, these were to maintain the value of sterling at a reasonably steady level from day to day, while letting it move in the long run to such new equilibrium levels as from time to time might be found consistent with a balance and a reasonably large volume of foreign trade, to offset international movements of funds arising from political alarms and excursions, to build a reserve against the sudden withdrawal of funds such as occurred in the summer of 1931, and to insulate the internal economy from the effects of such movements. These were all wise objectives which commended themselves to those who had given thought to the lessons of 1931. They were correct and proper objectives and in principle quite precise. But in practice they were not altogether precise. Some of the terms were not capable of precise measurement.

What was an equilibrium level? Which movements of funds were due to political alarms and which to the natural commercial process of foreign investment? From which movements was it desirable to insulate the internal economy? These were wise objectives, but not of such a character that it was always quite plain whether they were being achieved or whether certain measures were well designed to achieve them.

Contrast these with the objective previously assigned to the Bank of England, namely that it should always be in a position to pay $123\frac{1}{4}$ grains of 22 carat gold against the tender of a £1 banknote. The Bank was a company with shareholders and depositors, and experience in the past had shown that it was reasonable to expect it to be able to discharge its duties in their interest while fulfilling the precise objective thus defined. But these new objectives? They were sound and nationally desirable. But in the practical pursuit of them there was bound to be some vagueness about what ought to be done. Might not the Court get into an equivocal position in regard to its ordinary duties to shareholders and depositors? And when the new objectives were so much a matter of judgment and discretion, might it not get into an equivocal relation to the public? It was not in any direct way responsible to the public. Its actions might well be criticised. When its ultimate objective, laid down by Parliament, was to keep its notes convertible, then it could justify its various measures as necessary to achieve this. But if it were merely told to keep the value of sterling at a satisfactory level, conducive to the national interest, then it would be difficult for it to proceed in the face of criticism. It would

be in a false position. Relations with foreign powers were involved. Many Americans held that this country impeded a trade recovery, said to be well under way in the United States in the summer of 1932, by unduly depressing sterling in the autumn of that year. Should a private institution be put in a position of being solely responsible for action which might give rise to such charges? The charges might in certain cases be justifiable, since in implementing a policy, which at that stage was so much a matter of trial and error, with the best will in the world action might be taken which could subsequently be proved to have been unjustifiable and wrongfully damaging to the interests of friendly powers. Thus it was inexorable logic which led to the shifting of these responsibilities from a private institution to the broader shoulders of the Government itself. It was the lack of practical decision in the definition of the new monetary objective, a lack of precision not in the least reprehensible, which made it impossible to leave responsibility in private hands.

To the Bank was assigned the task of operating the Account. Thus it continued to discharge its old functions but no longer had responsibility for policy. There were frequent and continuous consultations between the principal and the agent. The critic will be anxious to know what happened at these consultations. Which party really decided the policy, the Bank or the Treasury? Is it possible that under this new arrangement the Bank retained much of its old influence, that the Bank was the true principal and the Chancellor of the Exchequer merely the agent who looked after public relations? Questions about the

ultimate seat of real power are notoriously elusive, even in cases where there is much more published information than we have in this case. It is possible, however, to make certain conjectures.

There is no reason to suppose that there was any difference of opinion on the broad lines of Exchange Account policy already set out; there may, of course, have been acute differences on matters of detail. There was one important matter of policy which still formally rested with the Bank, namely that of interest rates. Public opinion and the Government favoured a cheap money policy, and, if there was any disposition on the part of the Bank during any part of this period to wish for dear money—I am not suggesting that there was—it was clearly overruled. There is no reason to suppose, therefore, that in any great matter the Bank imposed its will or that the principal and agent did not work harmoniously together before the war. During a major war, central banking policy is in any case merged into Exchequer policy.

And what of post-war policy? In this public opinion is completely at sixes and sevens, and the Government probably reflects public opinion. It would be necessary to go back many decades and generations to find such great confusion and such deep divergences. Has the Bank a mind of its own? It is very probable that it has.

It is important to notice that in the 1932–39 period the impotence of the Bank for evil—had it wished evil!—depended on the coherence and agreement among outside experts on the desirable policy. Had the Bank pressed for a return to a rigid gold standard, it would have been massacred in argument and dis-

allowed in practice. Had the Bank broken the spirit of the compromise and, using the vestiges of power still formally left to it, inaugurated dear money in 1936, it would have known that the Government, National, or, if you like, Conservative, as it was, would have passed legislation, with the strong support of public opinion, removing those last vestiges of power. Now the position is quite different. Neither the Government nor public opinion have coherent minds of their own. This greatly increases the potential influence of the Bank.

What a good thing that we have nationalised the Bank in time, the hasty enthusiast might argue. He would be wrong. The exact opposite is the case. Formal nationalisation has gone far to resurrect the power of the Bank and puts it much nearer where it was before its practical dispossession in 1932. It is to be noticed in this connection that in the matter of interest rate policy, in which the Bank under the arrangement prevailing between 1932 and 1946 was still formally autonomous, there is not likely to be serious disagreement. The questions on which controversy centres are those of the "standard" and foreign exchange policy, and in that sphere the Government had the power in its own hands while the Bank was merely an agent.

Before explaining why nationalisation will enhance the power of the Bank, I must meet an objection that will occur to the reader's mind. "You talk of 'the Bank'," he may argue, "as though it were some durable unchanging object like St. Paul's Cathedral or the Matterhorn."—The Bank does, of course, undergo and has recently undergone great changes—

"What I mean by 'the Bank'," he may add, "is a collection of personalities of a certain type—crusted financiers with obsolete ideas. The nationalised Bank will not be 'the Bank' in the old sense at all. It will be a different institution infused with a new spirit, working harmoniously with and having the same ideas as a regenerated civil service." One may talk like this; but the reality does not correspond. I am not discussing the personalities now in the Bank or suggesting that the Government ought to "sack the lot." Quite the contrary. The reason why the Bank has on certain topics specific, characteristic views of its own, is because it has to do certain things. In popular discussions the part played even by such a powerful personality as Mr. Montagu Norman in forming the views of the Bank is greatly exaggerated. To some extent the views of the Bank may have been influenced by the type of man that became a director. But the main factor that moulds the corporate opinion of an institution of this kind is its daily task. In inter-departmental committees concerning points of policy of common interest the Foreign Office representative often takes a characteristic line, which it is easy to predict that he will take. This line is determined by the day-to-day duties of the Foreign Office in dealing with foreign powers. One might dismiss the whole of the present staff of the Foreign Office, but the new staff, after an interval of learning their duties, would soon be found to be taking the same kind of line in certain typical instances. Their point of view on many matters is governed by the problems with which they are confronted. And so it is with the Bank of England.

When the Exchange Equalisation Account was set up, the Bank of England was charged with the task of operating it. It had the requisite technical knowledge and experience. The operations of the Account interlocked closely with other operations of the Bank of England. Some agency is required to co-ordinate all these central operations. The Bank of England may be defined as the agency which does that.

And because it has to do these things, smoothly and efficiently if possible, it has points of view about policy. The Bank view may best be defined as the technician's view. In any sphere of action the technician's view is important and should be heard with respect. It is fruitless to adopt a policy likely to be impractical; the technician knows the hidden snags. But the technician should be subordinate. There may be wider objects of policy, the importance of which he is not well qualified to weigh, that call for measures that will spoil the smooth working of his machinery and give him endless trouble. The technician will be predisposed to resist such measures; indeed it is his duty to do so, for friction is something to be avoided if possible. The friction he foresees may well be real and injurious, while the so-called wider aims of policy may be mere flapdoodle.

Under the pre-nationalisation arrangements the Bank was given ample opportunity to present its view. On many technical points, one may guess, they were probably accepted. But in the last resort the Bank representative could always be sent packing; he was heard by courtesy but had no official status or responsibility for policy.

Now the position will be different. At an inter-

departmental committee the Bank representative will be able to say, " I am afraid that the Governor must reserve his opinion." Thus action will be blocked. On a matter on which the Bank feels strongly, the Governor will no doubt get audience at the Cabinet, and he will be there not by courtesy but as the head of an important government department. It will be much less easy for the Cabinet to come to a contrary decision as soon as his back is turned. Moreover the Governor will be well briefed on the intricate pros and cons. The subject-matter of these controversial issues is such that most Ministers will not be well able by their own training to see the fallacies in his arguments. The Cabinet is only too likely to be won over by his convincing advocacy. Again the Bank will be officially represented on delegations to inter-governmental conferences. It is thus inevitable that the Bank's view will have much more influence than before. Once the point is grasped that the Bank view is not the capricious expression of some individual's personality, but arises inevitably from its day to day routine, it is easy to see that nationalisation is a retrograde step. If it is important that an agent should not acquire excessive influence, it is better to leave him in his position as agent and not make him a partner in the firm.

That the Bank has gained power by the Act I take to be certain. Can we foresee the practical consequences of this accession of power in the peculiar circumstances of to-day? I believe the dangers to be without precedent. Nationalisation could have been carried out in the 'thirties with much less risk, so far as immediate consequences were concerned, because of the general consilience of views about policy. Now

we are at the cross-roads; there is disagreement about which way we should go; the consequences of our choice will be portentous.

The technician has certain well-defined characteristics. In regard to a piece of mechanism that has functioned well he is naturally conservative. He distrusts other technicians with a different method of approach to the problem. He has a touch of the Empire-builder in him. Clearly in a case where his own firm has done a service remarkably well for generations, he will be totally opposed to any sharing of the work. It would be contrary to human nature to expect the Bank to be an enthusiastic advocate of the International Monetary Fund. It is bound to hark back to the world leadership and control which it exercised for so many decades before 1914.

It will be the technician's instinct to collect as many fragments of the old business as he can from the wreckage and conduct the business in the old way. The Bank of England will remain haunted by the ghost of its past glories. The matter is further complicated by the experience of war-time. Having been very belated in adopting economic warfare methods of foreign exchange control, we finally practised them with great skill and success. Thus while in the old days the Bank would have looked with favour on a movement to free the channels of trade, it is liable now to fall victim to the illusion that these fascinating war-time techniques, handled with such art, can be applied in peace-time too. But the avowed object of Bretton Woods is to break up all that machinery, whether it dates from the war period, as it mainly does in our case, or from the pre-war period.

If one believes that the future greatness of the country depends on the energy and imagination she puts into building up a new economic world system in partnership with the United States, then one is bound to view with alarm any accession of power to the Bank of England view. This is typically and essentially a case, a case of cases, where the broad aims of policy should prevail over the narrow jealousies of the technician. Each time that the Governor goes well briefed to the Cabinet, if only we knew when it was, we should be anxious for the future of the country. The situation is the more dangerous in that public opinion in the country remains ambivalent, doubtful whether to take the bold line of partaking in world economic reconstruction or to lapse into isolationism. It is pathetic that the doughty champions who railed against the fetters of gold and other obsolete financial trammels should have taken a step which will decidedly strengthen the forces of reaction.

The foregoing argument relates to the practical effect of nationalising the Bank of England now. Has it a wider moral? This is a difficult question. It seems sensible to hold that nationalisation should be regarded not as an end in itself but a means, to be used on suitable occasions, to secure the sovereignty of the public interest. In this particular case nationalisation has been a step in the reverse direction. Had it been possible to consider the matter coolly and at leisure, this point might have become evident. But this particular piece of nationalisation was long ago predetermined by the events of 1931. Nemesis could not wait to hear the arguments; and, as in classic tragedy, has had little relation to just retribution.

Are these arguments relevant to other services which may be nationalised? In so far as the decisions of policy that have to be taken in regard to them from time to time are less intimately bound up with the well-being of our economy as a whole than central banking policy decisions, the arguments have less force. None the less it is important that those anxious to secure the sovereignty of the public interest by state action should bear in mind the danger that when the administration of an industry is made an arm of government, it becomes better placed to push the sectional interests of that industry at the cost of the general interest.

Postscript, August 1947

It is difficult for one who does not move along the inner corridors of the nation's government to judge exactly about the balance of power there. Am I wrong in seeing a confirmation of the diagnosis made in this article, which was written some sixteen months ago, in the extremely weak handling of the problem of our sterling balances?

This problem appears to be essentially one requiring a sharp decision on the basis of considerations of the highest statesmanship, reinforced by a correct economic diagnosis. There are in existence some £3,500 million balances, which constitute claims on the part of our allies and friends to be reimbursed for some of their expenses incurred during the war. The general merits of those claims I need not now discuss. The question at issue is the short-term policy.

One thing is quite certain, namely, that they cannot

be regarded as deposits at a bank which the depositor is able to draw out at will. It would be physically quite impossible for payments on this scale to be made within a few years after the war. The economist therefore advises, as a first point, that these balances will have to be given special treatment. The problem then is, what treatment?

One line would be to say that nothing can be paid on these balances so long as Britain is dependent on American money, that the balances should therefore be completely blocked and not drawable for the time being. The alternative is to temporise, to go through a great series of special negotiations and allow certain releases from time to time. I suggest that statesmanship points to the former course. It is a question of choosing between the initial shock that is given to our friends and clients when they realise that nothing is to be paid for a finite period (namely, the period of British dependence on fresh foreign borrowing), and on the other hand the discontent spread over years which is caused by our failing to agree to what the other parties regard as adequate releases, and the weakening of our position during this interim period by the releases that are actually made. It is a question of psychology, it is a question of statesmanship, it is a question, in fact, of the highest statesmanship.

Bound up with this issue is the question of the technical treatment of the balances. A clearly defined block, announced by the British Prime Minister, as such an important decision should be, would give authority for drastic action, where this was needed to make a block effective. On the other hand, where there is no sharp policy decision of this kind, there

may be some awkwardness about taking the necessary action in such cases. The consequence may be leakages. The authorities may hope that they will not be serious leakages, but the figures which I have quoted in Chapter II (ii) suggest that there have been serious leakages. And this is a grave matter. They may well amount in total to quite a considerable quantity of food for our people. If there have been leakages, that much less food this winter will be available in the shops.

The technician looks at the matter in a different way. To him a balance is a balance. He is worried about the susceptibilities of clients. It is not that the view that he takes is more honourable, for, whatever happens, it is quite certain that the balances cannot be freely drawn upon. It is a question of broad strategy. The technician is content to have a long series of temporisings and compromisings; he is used to them in his normal business life. It does not jump to his mind that a great distinction can be made between what is done in a joint war effort and the normal course of peace-time business. It is upon that distinction that the statesman seizes, and he can use it in an effective way, not only to immediate British advantage, but also, on a longer view, to the advantage of all concerned. For the degringolade of Britain and the failure of a sound international economy to come into being will do injury to the holders of the balances far outweighing any gain that might accrue to them from piecemeal releases and leakages.

I suspect on the other hand that the technician informs the statesman that if he is allowed to carry out a series of negotiations, he can by devious com-

promises carry us through. It is quite likely that he altogether misjudges his power. He works by traditional methods and does not appreciate the underlying economic forces which determine the nation's economic strength and solvency. The Bank of England did not achieve a great reputation in the period between the two wars for its understanding of the more fundamental economic forces that were affecting us and the world. I judge that this experiment of letting the technicians have their way has done grave injury to the nation at a critical time and in no wise fortified our international reputation for honourable dealing. We have to regard not only what has happened so far, but its economic consequences which are now unfolding.

It may also be due to the Bank of England that techniques are adopted which lead to the perpetuation of the distinction between hard and soft currencies. This distinction puts a strong impediment to the coming into operation of the International Monetary Fund. But that, no doubt, causes little pain to the Bank of England.

August 21. And now, having allowed our bankers to be so generous to their friends with other people's money, we have the crowning humiliation of the suspension of sterling convertibility, in flagrant violation of the terms of the American Loan, a veritable economic Munich.